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# FEDERAL TAXES

*War Tax*

INCOME TAX AND  
SPECIAL TAXES

1919

COMPLIMENTS OF  
THE BANK OF CALIFORNIA  
NATIONAL ASSOCIATION  
SAN FRANCISCO, CALIFORNIA

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# Federal Taxes

Including a complete digest of the Income,  
Excess Profits, War Profits and Capital Stock  
Taxes on Corporations; The Income Tax  
on Individuals, and Special Taxes  
as such taxes apply to

1919

and subsequent years

Compiled and edited by  
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### MEDICINES, TOILET PREPARATIONS, ETC.

### CORPORATION CAPITAL STOCK TAX

### STAMP TAXES

### CHILD LABOR TAX

# FEDERAL TAXES

**Including a Complete Digest of the Income, Excess Profits, War Profits and Capital Stock Taxes on Corporations; the Income Tax on Individuals, and Special Taxes, as such Taxes Apply to 1919 and Subsequent Years**

This book does not contain a literal copy of the Revenue law as it affects the above named taxes, but gives a complete and concise summary of all the provisions thereof as are in force at the close of 1919. There are also shown herein some of the more important recent rulings and regulations of the Treasury Department on the interpretation and application of the law.

The original section and paragraph numbers of the law are used in order that reference may be readily made to those sections which must be considered together, and to direct attention to the official text of the law.

## INCOME TAX—INDIVIDUALS

### THE NORMAL TAX

**Sec. 210:** The normal tax upon the net income of every individual for the calendar year 1919 shall be:

8% of the net income in excess of the credits allowed under Sec. 216;

Provided: that in the case of a citizen or resident, the rate on the first \$4,000 in excess of the credits shall be 4%.

**Explanation:** After ascertaining your net income turn to Sec. 216, page 7, and take your personal exemption and other credits, if any. Suppose you are unmarried, have no dependents and are a citizen, with a salary of \$5,000 in 1919; your only credit would be \$1,000 personal exemption, and your tax is computed as follows:

First \$1,000, personal exemption credit.....	No tax
On next \$4,000 (the excess over the credit) at 4% .....	\$160

If the taxable income is \$7,500, with a credit of \$1,000, the normal tax would be (4% of \$4,000).....	\$160
and on the next \$2,500 (8% of \$2,500).....	200

In addition to the \$360 normal tax on \$7,500 income, the surtax would be:

On \$5,000 to \$6,000 (\$1,000 @ 1%).....	10
On 6,000 to 7,500 (\$1,500 @ 2%).....	30

Total of normal and surtaxes ..... \$400

**Another Example:** A married person, citizen, with two dependents under 18; wife has no separate income:

Net taxable income from salary in 1919.....	\$10,000
---	----------

First \$2,000, personal exemption credit.....	No tax
---	--------

Next \$400, credit for two dependents, \$200 each.....	No tax
--	--------

Normal tax on \$2,400 to \$6,400 (being first \$4,000 in excess of credits) at 4% .....	\$160
---	-------

Normal tax on \$6,400 to \$10,000 (\$3,600) at 8%.....	288
--	-----

Total normal tax ..... \$448

In addition to the \$448 normal tax, the surtax on the above income would be:

On \$5,000 and up to \$6,000 at 1% the tax is.....	\$10
--	------

On 6,000 and up to 8,000 at 2% the tax is.....	40
--	----

On 8,000 and up to 10,000 at 3% the tax is.....	60
---	----

Total of normal and surtaxes ..... \$558

### THE SURTAX RATES

Sec. 211: (a) The surtax rates on net income are in addition to the normal tax under Sec. 210 above. The law provides that for each taxable year the following surtax rates on the net income of every individual will apply:

Over 5,000 to 6,000.....	1%	Over 58,000 to 60,000.....	28%
Over 6,000 to 8,000.....	2%	Over 60,000 to 62,000.....	29%
Over 8,000 to 10,000.....	3%	Over 62,000 to 64,000.....	30%
Over 10,000 to 12,000.....	4%	Over 64,000 to 66,000.....	31%
Over 12,000 to 14,000.....	5%	Over 66,000 to 68,000.....	32%
Over 14,000 to 16,000.....	6%	Over 68,000 to 70,000.....	33%
Over 16,000 to 18,000.....	7%	Over 70,000 to 72,000.....	34%
Over 18,000 to 20,000.....	8%	Over 72,000 to 74,000.....	35%
Over 20,000 to 22,000.....	9%	Over 74,000 to 76,000.....	36%
Over 22,000 to 24,000.....	10%	Over 76,000 to 78,000.....	37%
Over 24,000 to 26,000.....	11%	Over 78,000 to 80,000.....	38%
Over 26,000 to 28,000.....	12%	Over 80,000 to 82,000.....	39%
Over 28,000 to 30,000.....	13%	Over 82,000 to 84,000.....	40%
Over 30,000 to 32,000.....	14%	Over 84,000 to 86,000.....	41%
Over 32,000 to 34,000.....	15%	Over 86,000 to 88,000.....	42%
Over 34,000 to 36,000.....	16%	Over 88,000 to 90,000.....	43%
Over 36,000 to 38,000.....	17%	Over 90,000 to 92,000.....	44%
Over 38,000 to 40,000.....	18%	Over 92,000 to 94,000.....	45%
Over 40,000 to 42,000.....	19%	Over 94,000 to 96,000.....	46%
Over 42,000 to 44,000.....	20%	Over 96,000 to 98,000.....	47%
Over 44,000 to 46,000.....	21%	Over 98,000 to 100,000.....	48%
Over 46,000 to 48,000.....	22%	Over 100,000 to 150,000.....	52%
Over 48,000 to 50,000.....	23%	Over 150,000 to 200,000.....	56%
Over 50,000 to 52,000.....	24%	Over 200,000 to 300,000.....	60%
Over 52,000 to 54,000.....	25%	Over 300,000 to 500,000.....	68%
Over 54,000 to 56,000.....	26%	Over 500,000 to 1,000,000.....	64%
Over 56,000 to 58,000.....	27%	Over 1,000,000.....	65%

**Note:** The surtax, as shown above, commences at \$5,000. The entire net taxable income is taken as the basis.

**Special Relief Provision:** (b) In case of bona fide sale of mines, oil or gas wells, or any interest therein, where the principal value has been demonstrated by prospecting or exploration and discovery work done by the taxpayer, the portion of the tax under this section attributable to such sale shall not exceed 20% of the selling price.

### WHAT IS "NET INCOME"?

Sec. 212: In the case of an individual "net income" means the gross income less the deductions allowed under Sec. 214.

The net income is computed on the taxpayer's accounting period, fiscal or calendar year, in accordance with his bookkeeping method. If no accounting method is used or if the one used does not show the true income, the commissioner will compute the taxes on a basis that does clearly show it. If the taxpayer has no accounting period, or does not keep books, the net income will be computed for the calendar year. If he changes from fiscal to calendar, from calendar to fiscal, or from one fiscal to another fiscal year, the income will be computed, with the commissioner's approval, on the new accounting period. (See Sec. 226.)

### WHAT IS "GROSS INCOME"?

Sec. 213: (a) Except as otherwise provided in Sec. 233 "Gross income" includes, gains, profits, and income derived from salaries, wages, or compensation for personal service (including in case of the President of the U. S., the judges of the Supreme and inferior courts, and all other U. S. officers and employees, Alaska, Hawaii, or any political subdivision thereof, or Dist. Columbia, the compensation received as such) in whatever form paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, real or personal, growing out of ownership or use of, or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, and income from any source whatever. All such items must be included in gross income for the year in which received, unless under permissible accounting methods they are to be accounted for as of a different period.

### Items Not to be Included in Gross Income

(b) "Gross income" does not include following items, which are exempt from income tax:

1. Proceeds of life insurance policies paid upon the death of insured, to individual beneficiaries or to the estate of the insured.

2. Amount received by insured as return premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at maturity, or upon surrender of the contract;

3. Value of property acquired by gift, bequest, devise, or descent (but income from such must be included in gross income);

4. Interest on obligations of a State, Territory or any political subdivision thereof, or District of Columbia; or securities issued under the Federal Farm Loan Act; or obligations of the U. S. or its possessions; or bonds issued by the War Finance Corporation. Provided: That every person owning any of the obligations, securities or

bonds enumerated shall, in their return, submit a statement as to the number and amount owned and the income received therefrom. Interest on U. S. bonds issued after Sept. 1, 1917, and bonds issued by the War Finance Corporation is exempt only as the acts authorizing them provide. The interest is excluded from gross income only if and to the extent it is wholly exempt from tax to the taxpayer.

5. Income of foreign governments from investments in the U. S. in stocks, bonds or other domestic securities, or from interest from deposits in banks in the U. S., or from other sources.

6. Amounts received, through accident or health insurance or under workmen's compensations acts, for personal injuries or sickness, plus any damages received by suit or agreement on account of such injuries or sickness;

7. Income from any public utility or the exercise of any essential governmental function and accruing to any state, territory or the District of Columbia, or any political subdivision of any state or territory, or accruing to the government of any possession of the U. S., or any political subdivision thereof.

If a state or territory, District of Columbia, or any political subdivision of a state or territory, prior to September 8, 1916, made a contract in good faith with any person to acquire, construct, operate or maintain a public utility, no tax is levied on the income from the operation, so far as the payment thereof will cause a loss or burden on such state, territory, D. of C. or political subdivision.

#### Salaries of Soldiers and Sailors in Present War Exempt

8. So much of the amount received during the present war by a person in the military or naval forces of the U. S. as salary or compensation in any form from the U. S. for active services in such forces as does not exceed \$3,500 is exempt.

(c) In case of non-resident alien individuals, gross income includes only gross income from sources in the U. S., including interest on bonds, notes, or other interest-bearing obligations of residents, dividends from resident corporations, and including amounts received (although paid under contract for the sale of goods or otherwise) representing profits on the manufacture and disposition of goods in the U. S.

### DEDUCTIONS ALLOWED IN COMPUTING NET INCOME

Sec. 214: The following deductions are allowed in arriving at the net income:

1. All ordinary and necessary expenses paid or incurred during the taxable year in any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered, and including rentals or other payments necessary to the continued use or possession, for the business or trade, of property to which the taxpayer has not or is not taking title or in which he has no equity.

2. All interest paid or accrued in the year on indebtedness, except that incurred or continued to purchase or carry obligations or securities (other than those of the U. S. issued after September 24, 1917) the interest on which is wholly exempt from the tax under this title as income to the taxpayer, or, in case of a non-resident alien individual, the proportion which the gross income from sources in the U. S. bears to that from all sources, within and without the U. S.

3. Taxes paid or accrued in the year imposed (a) by authority of the U. S., except income, war-profits and excess-profits taxes; or (b) by authority of any of its possessions, except income, war-profits and excess-profits taxes allowed as a credit (Sec. 222); or (c) by authority of any state or territory, or any county, school district, municipality or other taxing subdivision, not including those against local benefits of a kind tending to increase the value of the property; or (d) in case of a citizen or resident, by authority of any foreign country, except income, war-profits and excess-profits taxes allowed as a credit under Sec. 222; or (e) in case of non-resident alien individual, by authority of any foreign country (except income, war-profits and excess-profits taxes, and taxes against local benefits of a kind tending to increase the value of the property assessed), on property or business.

#### Deductions Allowed for Losses

4. Losses sustained in the taxable year not compensated for by insurance or otherwise, if incurred in trade or business;

5. Losses sustained in the taxable year and not compensated for by insurance or otherwise, if incurred in any transaction entered into for profit, though not connected with the trade or business, but in case of a non-resident alien individual only as to such transactions in the U. S.;

6. Losses sustained in the taxable year of property not connected with the trade or business (but in case of non-resident alien individuals only property in the U. S.) arising from fires, storms, shipwreck, or other casualty, or from theft, and if not compensated for by insurance or otherwise;

**Regulation: Shrinkage in Stocks:** A person possessing securities, such as stocks and bonds, can not deduct from gross income any amount claimed as a loss on account of shrinkage in value of such securities through fluctuation of the market or otherwise. The loss allowable in such cases is that actually suffered when the securities mature or are disposed of.

7. Debts ascertained to be worthless and charged off in the taxable year;
8. Reasonable allowance for the exhaustion, wear and tear of property used in the trade, or business, including a reasonable allowance for obsolescence.

#### Amortization Allowances on War Plants, Ships, etc.

9. In case of buildings, machinery, equipment, or other facilities constructed, erected, installed, or acquired on or after April 6, 1917, for the production of articles contributing to the prosecution of the present war, and in case of vessels constructed or acquired on or after April 6, 1917, for transportation of articles or men for war purposes, there is allowed a reasonable deduction for the amortization of that part of the cost borne by the taxpayer, but not again including any amount otherwise allowed as a deduction. At any time within 3 years after the end of the war the commissioner may, and at the request of the taxpayer shall, re-examine the return, and if he then finds that the deduction originally allowed was incorrect, the tax imposed for the year or years affected will be re-determined; and any tax found due must be paid on notice; or if overpaid, it will be credited or refunded. (See Sec. 252.)

#### Increased Depletion Allowance on Mines, Oil, and Gas Wells, Timber, Etc.

10. In case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case, based on cost including cost of development not otherwise deducted. In case of properties acquired prior to March 1, 1913, the fair market value (or the taxpayer's interest in it), on that date will be taken in lieu of cost up to that date. In case of mines, oil and gas wells, discovered by the taxpayer on or after March 1, 1913, and not acquired by purchase of a proven tract or lease, where the fair market value is materially disproportionate to the cost, the depletion allowance will be based on the fair market value at date of discovery, or within 30 days thereafter; such reasonable allowance in all cases above to be made under regulations. In case of leases the deductions here allowed will be equitably apportioned between lessor and lessee;

11. Contributions or gifts to corporations operated exclusively for religious, charitable, scientific, or educational purposes, or prevention of cruelty to children or animals, none of whose net earnings go to any private stockholder or individual; or to the special fund for vocational rehabilitation, not in excess of 15% of the net income computed without the benefit of this paragraph. Such gifts to be allowed, must be verified under the regulations. Non-resident aliens are allowed this deduction only as to those made to domestic corporations, or the vocational rehabilitation fund;

#### Preceding Year Losses Deductible

12. At time of filing return for the taxable year 1918 a taxpayer may file a claim in abatement based on the fact he has sustained a substantial loss (whether or not actually realized by sale or other disposition) resulting from any material reduction (not due to temporary fluctuation) of the value of the inventory for such year, or from actual payment after the close of such year of rebates in pursuance of contracts, on sales made in such year. In such case payment of the tax covered by the claim will not be required until the claim is decided, but the taxpayer must accompany his claim with a bond in double the amount of the claim, with sureties satisfactory to the commissioner, to pay the tax, with interest. If any part of the claim is disallowed, the remainder of the tax due must be paid on demand, with interest at 1% a month, from the time it would have been due had no claim been filed. If shown that the loss has been sustained, then in computing the income tax, deduct the amount of such loss from the net income.

If no claim is filed but it is shown to the commissioner's satisfaction that in 1919 the taxpayer sustained a substantial loss of the kind above described, the amount of such loss shall be deducted from the net income for 1918, and the tax imposed for such year shall be redetermined. Any amount found due the taxpayer will be credited or refunded (under Sec. 252).

In case of non-resident alien individual deductions 1, 4, 7, 8, 9, 10, and 12, and the last sentence of paragraph 3 (clause (e)), will be allowed only if they are connected with income from a source in the U. S.

**Bonuses to Employees: Regulation:** Gifts or bonuses to employees will constitute allowable deductions from gross income when such payments are made in good faith and as additional compensation for the services actually rendered by the employees, provided such payments, when added to the stipulated salaries, do not exceed a reasonable compensation for the services rendered. Donations made to employees and others, which do not have in them the element of compensation or are in excess of reasonable compensation for services, are considered gratuities and are not deductible from gross income.

**Compensation for Personal Services: Regulation:** Among the ordinary and necessary expenses paid or incurred in carrying on any trade or business may be included a reasonable allowance for salaries or other compensation for personal services actually rendered. The test of deductibility in the case of compensation payments is whether they are reasonable and are in fact payments purely for services.

#### ITEMS WHICH CANNOT BE DEDUCTED

**Sec. 215:** In computing net income no deduction is allowed in respect of:

- (a) Personal, living or family expenses;

(b) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;

(c) Any amount expended in restoring property or in making good its exhaustion for which an allowance is or has been made; or

(d) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer when he is directly or indirectly a beneficiary under such policy.

#### CREDITS ALLOWED—PERSONAL EXEMPTIONS, ETC.

**Sec. 216:** In figuring the **normal tax only** the following credits are allowed:

(a) Dividends from a corporation which is taxable on its net income, and dividends from a personal service corporation out of profits on which income tax has been imposed by Act of Congress.

(b) Interest on U. S. obligations and bonds issued by the War Finance Corporation, which is included in gross income.

(c) For a single person a personal exemption of \$1,000; or in case of a head of a family or a married person living with husband or wife, a personal exemption of \$2,000. Husband and wife living together have but one personal exemption of \$2,000 against their aggregate net income. If they make separate returns the \$2,000 exemption may be taken by either or divided equally.

(d) \$200 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer, if under 18 or incapable of self-support.

(e) A non-resident alien whose country imposes an income tax, is allowed the personal exemption and the \$200 for each dependent only if his country allows similar credits to U. S. citizens not residing in such country.

**Date Determining Exemption: Regulation:** The status of the taxpayer on the last day of his taxable year determines his right to an additional exemption and to a credit for dependents. If he then is the head of a family the \$2,000 exemption may be taken; if he then is the chief support of a dependent under 18, the \$200 credit may be taken. Whoever during the taxable year has ceased to be the head of a family or to have dependents, is entitled only to the \$1,000 exemption.

#### CREDITS AND DEDUCTIONS ALLOWED NON-RESIDENT ALIENS

**Sec. 217:** To receive the deductions and credits allowed, and heretofore specified, the non-resident alien must report his total income from all sources in the U. S., including all the information the commissioner may require. The personal exemption and dependent allowance (Sec. 216-c and d) except as otherwise provided (Sec. 216-e) may be received by filing a claim with the withholding agent. If he fails to file a return the collector will collect the tax and such alien's property will be liable to restraint for the tax.

#### PARTNERSHIPS—PERSONAL SERVICE CORPORATIONS—HOW TAXED

**Sec. 218:** (a) Individuals doing business in partnership are liable for income tax only in their individual capacity. In computing his net income each partner must include his distributive share, whether it is distributed to him or not, of the partnership's net income. If it is computed on a different period then he must figure his distributive share of the partnership's net income for any accounting period of the partnership ending in the fiscal or calendar year on the basis of which the partner's income is computed.

For the **normal tax** the partner is allowed as credits, in addition to the personal exemption, his share of dividends and interest on bonds received by the partnership (Sec. 216-a and b).

(b) If a partnership's fiscal year ends during a calendar year having rates different from the preceding calendar year, the rates for such preceding calendar year apply to each partner's share in the proper proportion, and the rates for the calendar year in which the fiscal year ends apply to the remainder.

The partnership's net income is computed on its accounting period (see Sec. 212) except that deductions for contributions and gifts, etc., under Sec. 214a-11 are not allowed.

#### “Personal Service Corporations”

Personal service corporations (definition of which is shown on page 30) are not subject to the income tax under this title, but individual stockholders are taxed the same as members of a partnership. All the provisions relating to partnerships apply, so far as practicable, to personal service corporations and to the stockholders.

Amounts distributed by a personal service corporation in its taxable year must be accounted for by the distributees, and net income remaining undistributed at the end of the taxable year must be accounted for by the stockholders in proportion to their respective shares, at the close of its taxable year.

#### INCOME TAXES ON ESTATES AND TRUSTS

**Sec. 219:** (a) The **normal and surtax** rates (Secs. 210 and 211) apply to the income of estates or of any property held in trust, including:—

1. Income received by estates of deceased persons during administration or settlement;

2. Income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests;

3. Income held for future distribution under the terms of the will or trust; and,

4. Income which is to be distributed to beneficiaries periodically, whether or not at regular intervals, and income collected by a guardian of an infant to be held or distributed as the court may direct.

#### The Fiduciary Must Make Return

(b) The fiduciary must make return for the estate or trust he acts for. The net income thereof is computed on the calendar or fiscal year, except he is also allowed to deduct (in lieu of the deductions allowed under 214a 11) any part of the gross income which, under the will or deed creating the trust is paid to or permanently set aside for the U. S., or any state, or political subdivision, or for religious, charitable, scientific or educational purposes, or for prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual. As to income to be distributed periodically, or held subject to a court's order, the fiduciary must include each beneficiary's distributive share, whether or not it is distributed before the close of the taxable year.

(c) The tax is imposed on the net income of the estate or trust in process of administration or settlement (in cases under 1, 2 and 3-a above) and is paid by the fiduciary, except in determining the estate's net income during administration or settlement he may deduct income paid or credited to any beneficiary. In such cases the estate or trust, for the normal tax, is allowed the same credits as are allowed a single person, (Sec. 216).

(d) In case of income to be distributed periodically, (par. 4 above) and income collected by a guardian of an infant to be held or distributed on the court's orders, and in case of income of an estate during administration or settlement permitted to be deducted from the net income on which tax is to be paid by the fiduciary, the tax shall not be paid by the fiduciary, but there must be included in computing the net income of each beneficiary his distributive share, whether distributed or not, of the net income of the estate or trust for his accounting period. In such cases the beneficiary will, for the normal tax, be allowed as credits, in addition to those allowed him under Sec. 216, his share of corporation dividends, personal service corporation dividends and interest on U. S. and War Finance Corporation bonds, as are received by the estate or trust.

#### CORPORATION EARNINGS WITHHELD, TAXED TO STOCKHOLDERS

**Sec. 220:** If any corporation is formed or availed of to prevent the imposition of the surtax on its stockholders or members by permitting its profits to accumulate instead of dividing them, it will not be subject to the corporation income tax, (Sec. 230) but its stockholders or members will be taxed the same as the stockholders of a personal service corporation (see Sec. 218) except that the war-profits and excess-profits tax shall be deducted from the net income before computing the proportionate share of each stockholder or member.

The fact that it is a mere holding company or that the profits are permitted to accumulate beyond reasonable needs is evidence of a purpose to escape the surtax; but where profits are permitted to become surplus it is not construed as evidence of a purpose to escape tax unless the commissioner certifies that such accumulation is unreasonable. When requested, every corporation will report its profits, the names and addresses of shareholders who would be entitled to them if distributed, and amounts payable to each.

#### PAYMENT OF TAX AT SOURCE—WHEN REQUIRED

**Sec. 221:** (a) All individuals, corporations and partnerships, including lessees or mortgagors of real or personal property, fiduciaries, employers, and all U. S. officers and employees having control, custody, disposal or payment, of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income, of any non-resident alien individual (other than dividends from a corporation which is taxable on its net income), shall, except in cases provided in (b) following, and except as otherwise provided in the regulations, deduct and withhold an income tax of 8%. The commissioner may also authorize such tax deducted and withheld from interest on any securities the owners of which are not known to the withholding agent.

(b) Where bonds, mortgages or deeds of trust, or similar obligations of a corporation contain a "tax-free" covenant the corporation will deduct and withhold 2% of the interest on them. The commissioner may authorize such tax withheld where the owner is unknown to the withholding agent. Withholding is not required in case of a citizen or resident if he files by Feb. 1, a notice claiming the personal exemption credits (Sec. 216-c and d), nor in case of a non-resident alien individual if the regulation so provide, under Sec. 217.

(c) Everyone required to withhold tax must make return on or before March 1

and pay the tax on or before June 15. Such person or concern is liable for the tax, but is indemnified against claims for the amounts paid.

(d) Income on which tax is withheld must be included in the recipient's return, but the amount will be credited against the income tax in his return.

(e) If tax required to be withheld is paid by the recipient of the income it will not be recollected from the agent, nor will any penalty be imposed on the recipient or the agent for failure to return or pay, unless there was fraud.

**Interest on corporation bonds containing "tax free" covenant:** Under this heading should be included all interest received directly or through fiduciaries on bonds of corporations organized or doing business in the U. S., containing a clause by which the debtor corporation agrees to pay the interest without any deduction for taxes, provided exemption from withholding was not claimed by the owner of the bonds. If exemption was claimed, the interest received must be reported as income, under Block G of the return. The amount of tax paid by the debtor corporation is treated as a credit on page 1 of the return.

**Regulation:** In case of a person owning State, municipal, U. S., farm loan, or War Finance Corporation bonds, his return must contain a statement showing the amount of such obligations owned by him, the income received therefrom, and the other information called for in the form.

#### CREDIT FOR TAXES PAID

**Sec. 222:** (a) The tax under the individual income tax provisions shall be credited with the taxes paid as follows:

1. For a citizen, any income, war-profits and excess-profits taxes paid during the taxable year to any foreign country on income from sources therein, or to any U. S. possession; and

2. In case of a resident, such taxes paid in the taxable year to any U. S. possession; and

3. In case of an alien resident, who is a citizen or subject of a foreign country, any such taxes paid to such country on income from sources therein, if such country allows a similar credit to U. S. citizens residing therein; and

4. In case of any such individual who is a member of a partnership or a beneficiary of an estate or trust, his proportionate share of such taxes paid during the taxable year by the partnership, estate or trust to a foreign country or to any U. S. possession. If accrued taxes when paid differ from the amounts claimed as credits by the taxpayer, or if any tax paid is refunded in whole or in part, the taxpayer will notify the commissioner who will redetermine the tax due under the individual income tax provisions for the year or years affected. Any such tax found due must be paid on demand; or if overpaid, credited or refunded. In case of such tax accrued, but not paid the commissioner as a condition precedent to the allowance of this credit may require a bond, with satisfactory sureties conditioned for payment by the taxpayer of any tax found due.

These credits will be allowed only if the taxpayer furnishes satisfactory evidence of the income from sources in such foreign country or U. S. possession, and all other necessary information.

#### INDIVIDUALS—WHO MUST MAKE RETURN OF INCOME

**Sec. 223:** Every individual having a net income for the taxable year of \$1,000 or over if single or if married and not living with husband or wife, or of \$2,000 or over if married and living with husband or wife, must make a return. If a husband and wife living together have an aggregate net income of \$2,000 or over each shall make a return unless the income of each is included in a single joint return. If a taxpayer is unable to make his own return it must be made by an agent or the guardian or other person in charge of his person or property.

#### RETURNS BY PARTNERSHIPS

**Sec. 224:** Every partnership must make a return for each taxable year, showing specifically the items of its gross income and the deductions allowed. It must include the names and addresses of persons who would be entitled to share in the net income if distributed and the amount each would receive. The return must be sworn to, by any one of the partners.

#### FIDUCIARY'S RETURN FOR ESTATE OR TRUST

**Sec. 225:** Every fiduciary (except receivers appointed by law in possession of part only of the property of an individual) must make return for the individual, estate or trust, (1) if the net income of such individual is \$1,000 or over if single or if married and not living with wife or husband, or \$2,000 or over if married and living with husband or wife; or (2) if the net income of the estate or trust is \$1,000 or over, or if any beneficiary thereunder is a non-resident alien. A return made by one of two or more joint fiduciaries is a sufficient compliance. Fiduciaries making such return are subject to all provisions which apply to individuals.

#### CHANGE OF ACCOUNTING PERIOD—RETURNS

**Sec. 226:** If a taxpayer, with the commissioner's approval, changes from a fiscal to calendar year, he must make a separate return for the period between the close of his

last fiscal year and the following Dec. 31; if from calendar to fiscal year, make a separate return for the period between the close of the last calendar year and the date designated as the close of the fiscal year. If the change is from one fiscal year to another make return for the period between the close of former and date designated as close of new fiscal year. In first return on fiscal year basis, cover the period between Jan. 1 of calendar year in which such fiscal year ends, and end of such fiscal year.

### WHEN AND WHERE TO FILE RETURNS

**Sec. 227:** (a) Returns must be made on or before the 15th day of the third month following the close of the fiscal year, or if made for the calendar year, on or before March 15. The commissioner may grant reasonable extension if good cause exists, but he will keep a record of extensions and the reason therefor. No such extension can be made for more than six months except in cases of taxpayers who are abroad.

(b) Make returns to the collector for the district in which is located the legal residence or principal place of business of the person making the return, or, if he has neither in the U. S., then to the collector at Baltimore, Md.

### IF THE TAX IS UNDERSTATED

**Sec. 228:** If the collector or deputy has reason to believe the income is understated, he will give due notice to the taxpayer to show cause why it should not be increased, and if proved that the amount is understated, may increase it. The taxpayer may furnish testimony to prove any relevant facts and if dissatisfied with the collector's decision may appeal to the commissioner.

## THE CORPORATION INCOME TAX

### THE RATE

**Sec. 230:** (a) The corporation income tax rate for the calendar year 1919, on the net income of every corporation, is:

10% of the net income in excess of the credits provided in Sec. 236 (and which are fully explained on page 12).

(b) For the purposes of the Act of March 21, 1918, providing for the operation of the transportation systems while under Federal control, four-fifths of the tax imposed above, shall be treated as levied by an Act in amendment of Title I of the Revenue Act of 1917.

### EXEMPTIONS—CONDITIONAL AND OTHERS

**Sec. 231:** Following organizations are exempt from the corporation income tax:

1. Labor, agricultural, or horticultural organizations;
2. Mutual savings banks not having a capital stock represented by shares;
3. Fraternal beneficiary societies, orders or associations, (a) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and (b) providing for the payment of life, sick, accident, or other benefits to the members or their dependents;
4. Domestic building and loan associations and co-operative banks without capital stock organized and operated for mutual purposes and without profit;
5. Cemetery companies owned and operated exclusively for members' benefit;
6. Corporations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to children or animals, no part of whose net earnings benefit any private stockholder or individual;
7. Business leagues, chambers of commerce, or boards of trade, not organized for profit and no part of whose net earnings benefit any private stockholder or individual;
8. Civil leagues or organizations not organized for profit but operating exclusively for the promotion of social welfare;
9. Clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of whose net earnings go to any private stockholder or member;
10. Farmers' or other mutual hail, cyclone or fire insurance companies, mutual ditch or irrigation companies, mutual or co-operative telephone companies, or like organizations of a purely local character whose income consists solely of assessments, dues, and fees from members to meet expenses;
11. Farmers', fruit growers', or like associations, organized and operated as sales agents to market products of members and turning back to them the proceeds, less selling expenses, on the basis of the quantity of the produce furnished by them;
12. Corporations organized for the exclusive purpose of holding title to property, collecting the income and turning it over, less expenses to an organization itself exempt from income tax;
13. Federal land banks and national farm loan associations as provided for in the Federal Farm Loan Act of July 17, 1916;
14. Personal service corporations.

### "NET INCOME" OF A CORPORATION DEFINED

**Sec. 232:** In case of a corporation subject to the corporation income tax, "net income" means the gross income less the deductions allowed. The net income is computed on the taxpayer's annual accounted period. (See Secs. 212 and 226.)

### "GROSS INCOME" OF A CORPORATION DEFINED

**Sec. 233:** (a) The "gross income" of a corporation subject to the income tax, means the gross income as defined in Sec. 213, except that—

1. In case of life insurance companies do not include in "gross income" such portion of any actual premium received from an individual policy-holder as is paid back or credited to or treated as an abatement of premium of such policy-holder in the taxable year.

2. Mutual marine insurance companies will include the gross premiums collected and received by them, less amounts paid for reinsurance.

(b) Gross income of a foreign corporation includes only the gross income from sources in the U. S., including interest on bonds, notes or other obligations of residents, corporate or otherwise, dividends from resident corporations, and amounts received, (although paid under contract for the sale of goods or otherwise) representing profits on the manufacture and disposition of goods in the U. S.

### DEDUCTIONS ALLOWED CORPORATIONS

Sec. 234: (a) A corporation is allowed in computing its net income subject to the tax, the following deductions:

1. All ordinary and necessary expenses paid or incurred in the business, including reasonable salaries or other compensation for personal services actually rendered, and including rentals and other payments required as a condition to the continued use or possession of property, to which the corporation has not taken or is not taking title, or in which it has no equity;

2. Interest paid or accrued on its indebtedness except on that incurred or continued to purchase or carry obligations or securities (other than U. S. obligations issued after Sept. 24, 1917) the interest on which is wholly exempt from this tax as income to the taxpayer, or, in case of a foreign corporation, the proportion of such interest which its gross income from sources in the U. S. bears to its gross income from all sources, within and without the U. S.

#### Deduction of Taxes Paid

3. Taxes paid or accrued in the taxable year imposed (a) by the U. S., except income, war-profits and excess-profits taxes; or (b) by any of its possessions, except income, war-profits and excess-profits taxes allowed as a credit under Sec. 238; or (c) by any state or territory, or any county, school district, municipality, or other taxing subdivision of any state or territory, not including those against local benefits which tend to increase the value of the property assessed; or (d) in case of a domestic corporation, by any foreign country, except income, war-profits and excess-profits taxes allowed as a credit under Sec. 238; or (e) in case of foreign corporation, by any foreign country (except income, war-profits and excess-profits taxes and taxes against local benefits which tend to increase the value of the property) on the property or business. In case of so-called "tax free" bonds, no deduction for payment of any taxes paid pursuant to the contract referred to in Sec. 221-b, is allowed.

4. Losses sustained in the taxable year and not compensated for by insurance or otherwise.

5. Debts ascertained to be worthless and charged off in the taxable year.

6. Dividends from a corporation taxable under this title, and dividends from a personal service corporation out of profits on which income tax has been imposed by Act of Congress.

7. Reasonable allowance for exhaustion, wear and tear of property used in the trade or business including a reasonable allowance for obsolescence.

#### Amortization of Costs on War Plants

8. On buildings, machinery, equipment, or other facilities constructed, erected, installed or acquired, on or after April 6, 1917, for the production of articles contributing to the prosecution of the present war and in the case of vessels constructed or acquired on or after such date for transporting articles or men contributing to the war's prosecution, there is allowed a reasonable deduction for the amortization of such part of the cost as has been borne by the taxpayer, but not again including any amount otherwise allowed under this or other Acts, as a deduction in computing net income. Any time within 3 years after the close of the war the commissioner may, and at the taxpayer's request must, re-examine the return; if he finds the deduction originally allowed is incorrect, the taxes for the year or years affected will be redetermined; any tax found due must be paid on demand, or if overpaid, will be credited or refunded.

#### Depletion and Depreciation

9. In case of mines, oil and gas wells, other natural deposits and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case, based on cost including cost of development not otherwise deducted: Provided, that

In case of such properties acquired prior to March 1, 1913, the fair market value (or the taxpayer's interest therein) on that date will be taken in lieu of cost up to that date; also, in case of mines, oil and gas wells, discovered by the taxpayer on or after March 1, 1913, and not acquired by purchase of a proven tract or lease, where the fair market value is materially disproportionate to the cost, the depletion will be based on the fair

market value at the date of discovery, or within 30 days thereafter. In all the above cases the reasonable allowance will be made under regulations prescribed by the commissioner. In case of leases the deductions will be equitably apportioned between the lessor and lessee;

#### Insurance Companies' Deductions

10. In case of insurance companies, in addition to the above: the net addition required by law to be made in the taxable year to reserve funds (including in case of assessment insurance companies the actual deposit of sums with State or Territorial officers as additions to guarantee or reserve funds); and the sums other than dividends paid in the taxable year on policy and annuity contracts;

11. In case of corporations issuing policies covering life, health and accident insurance combined in one policy issued on the weekly premium payment plan continuing for life and not subject to cancellation, in addition to the above, such portion of the net addition (not required by law) made within the year to reserve funds as the commissioner finds to be required for the protection of holders of such policies only.

12. In case of mutual marine insurance companies, in addition to deductions allowed in paragraphs 1 to 10 inclusive, amounts repaid to policy holders on account of premiums previously paid by them, and interest paid on such amounts between the ascertainment and payment thereof;

13. In case of mutual insurance companies (other than mutual life or mutual marine) requiring their members to make premium deposits to provide for losses and expenses, there shall be allowed, in addition to deductions 1 to 10 inclusive (unless otherwise allowed under such paragraphs), the premium deposits returned to their policyholders and the premium deposits retained for the payment of losses, expenses and reinsurance reserves.

#### Preceding Year Losses Deductible

14(a). At time of filing return for the taxable year 1918 a taxpayer may file a claim in abatement based on the fact he has sustained a substantial loss (whether or not actually realized by sale or other disposition) resulting from any material reduction (not due to temporary fluctuation) of the value of the inventory for such year, or from actual payment after the close of such year of rebates in pursuance of contracts made during such year, on sales made in such year. In such case payment of the tax covered by the claim will not be required until the claim is decided, but the taxpayer must accompany his claim with a bond in double the amount of the claim; with sureties satisfactory to the commissioner, to pay the tax found due, with interest. If any part of the claim is disallowed, the remainder of the tax due must be paid on demand, with interest at 1% a month, from the time it would have been due had no claim been filed. If shown to the commissioner's satisfaction that such loss has been sustained, then in computing the income tax and the excess-profits tax, deduct the amount of such loss from the net income. (b) If no claim is filed but it is shown to the commissioner's satisfaction that in 1919 the taxpayer sustained a substantial loss of the kind above described, the amount of such loss shall be deducted from the net income for 1918, and the tax imposed for such year shall be redetermined. Any amount found due the taxpayer will be credited or refunded (under Sec. 252).

In case of a foreign corporation the deductions allowed in subdivision (a), except those allowed in paragraph (2) and in clauses (a), (b) and (c) of paragraph (3), shall be allowed only if and to the extent that they are connected with income from a source in the U. S. and the apportionment and allocation of the deductions with respect to sources of income will be determined under the rules and regulations.

#### ITEMS CORPORATIONS CANNOT DEDUCT

Sec. 235: The items which a corporation cannot deduct in computing net income are the same as those specified in Sec. 215, applying to individuals.

#### CREDITS ALLOWED CORPORATIONS

Sec. 236: The following credits are allowed corporations in figuring the Corporation Income tax only:

(a) Interest on U. S. obligations and bonds issued by the War Finance Corporation, which is included in gross income under Sec. 233;

(b) Any war profits or excess profits taxes imposed for the same taxable year.

Provided: In case of a corporation making return for a fiscal year beginning in 1917 and ending in 1918, in computing the tax as provided in Sec. 205(a), the tax computed for the entire period under Title II of the 1917 Revenue Act, will be credited against the net income computed for the entire period under Title I of the Revenue Act of 1916 as amended by the 1917 Act, and under Title I of the 1917 Act, and the tax computed for the entire period under excess profits title of this Act at the rates fixed for the calendar year 1918 will be credited against the net income computed for the entire period under this title; and

(c) In the case of a domestic corporation, \$2,000.

#### WHEN TAX IS PAID AT THE SOURCE

Sec. 237: If a taxable foreign corporation is not engaged in business in the U. S.

and has no place of business here, a tax of 10% will be deducted and withheld at the source. (The items of income on which the 10% is withheld are enumerated in Sec. 221; also the manner of returning and paying the tax.) On interest on so-called "tax free" bonds the deductions and withholding shall be 2%.

#### CREDIT FOR FOREIGN TAXES PAID

Sec. 238: (a) A domestic corporation will be credited with any income, war-profits and excess-profits taxes paid during the taxable year to a foreign country on income from sources therein, or to any U. S. possession. If accrued taxes when paid differ from the amounts claimed as credits by the corporation or if any tax paid is refunded, the corporation should at once notify the commissioner who will redetermine the tax due under the income tax and the war and excess-profits tax titles for the year or years affected, and the taxes found due must be paid on demand, or if overpaid, will be credited or refunded. In case of such tax accrued but not paid, the commissioner as a condition precedent to allowance of this credit may require the corporation to give bond, conditioned for payment of any tax found due on such redetermination.

(b) To obtain this credit the taxpayer must furnish evidence of the total income from sources in such foreign country or in such U. S. possession.

#### CORPORATION RETURNS—WHO MUST MAKE THEM?

Sec. 239: Every corporation subject to income tax, and every personal service corporation must make a return, sworn to by the president, vice-president, or other principal officer and by the treasurer or assistant treasurer. The return of a foreign corporation with no place of business here, must be made by its agent. Receivers, trustees in bankruptcy, or assignees operating the business of corporations, must make returns. (Returns under this section are subject to the provisions of Secs. 226 and 228. When made under 226 the credit of \$2,000 specific exemption will be reduced to the same ratio to the full credit as the number of months covered by the return bears to 12 months.)

#### CONSOLIDATED RETURNS REQUIRED

Sec. 240: (a) Corporations which are affiliated within the meaning of this section, must, under regulations, make a consolidated return of income and invested capital for the income, war profits and excess-profits taxes, and the taxes will be computed on such return. Provided, That there shall be taken out of such consolidated net income and invested capital the net income and invested capital of any such affiliated corporation organized after Aug. 1, 1914, and not successor to a then existing business, 50% or more of whose gross income consists of gains, profits, commissions or other income derived from a government contract or contracts made between April 6, 1917, and Nov. 11, 1918, both dates inclusive. In such case the corporation so taken out shall be separately assessed on the basis of its own invested capital and net income and the remainder of such affiliated group shall be assessed on the basis of the remaining consolidated invested capital and net income.

On a consolidated return, the total tax will be computed in the first instance as a unit and then assessed on the respective affiliated corporations in such proportion as may be agreed upon among them, or, if there is no agreement, then on the net income assignable to each. In computing the income tax only one specific credit of \$2,000 will be allowed; in computing the war-profits credit only one specific exemption of \$3,000; in computing the excess-profits credit only one specific exemption of \$3,000 is allowed.

(b) Two or more domestic corporations are deemed to be affiliated if one corporation owns directly or controls through closely affiliated interests, or by a nominee or nominees, substantially all the stock of the other or others; or, if substantially all the stock of two or more corporations is owned or controlled by the same interests.

(c) For the purposes of Sec. 238 (credit for taxes) a domestic corporation which owns a majority of the voting stock of a foreign corporation is deemed to have paid the same proportion of any income, war profits and excess-profits taxes paid (but not including taxes accrued) by such foreign corporation during the taxable year to any foreign country or to any U. S. possession on income from sources without the U. S. which the amount of any dividends (not deductible under Sec. 234) received by such domestic corporation from such foreign corporation in the taxable year bears to the total taxable income of such foreign corporation upon or with respect to which such taxes were paid; Provided, that in no such case shall the amount of the credit for such taxes exceed such dividends (not deductible under Sec. 234) received by such domestic corporation in the taxable year.

#### RETURNS—TIMES AND PLACE FOR FILING

Sec. 241: (a) A corporation's return must be made on or before the 15th day of the third month following the close of the fiscal year, or if made for the calendar year, then on or before March 15.

(b) It must be made to the collector of the district where the principal place of

business, principal office or agency is located. If it has none of these in the U. S., then to the collector at Baltimore, Md.

#### TAXES PAYABLE IN FOUR INSTALLMENTS

Sec. 250: (a) Except where the tax is paid at the source, it shall be paid in four installments of one-fourth each: the first to be paid at the time fixed for filing the return; the second on the 15th of the third month; the third on the 15th of the sixth month, and fourth on the 15th of the ninth month, after the time fixed for filing the return. If an extension is granted the time for payment of the first installment shall be postponed until the date of the expiration of the period of the extension, but the time for payment of the other installments shall not be postponed unless the commissioner so provides in granting extension. In any case where time for payment of an installment is at the request of the taxpayer thus postponed, there will be added to the installment, interest at  $\frac{1}{2}$  of 1% per month from the time it would have been due if no extension had been granted, until paid. If an installment is not paid when due, the whole amount of tax unpaid becomes due and payable upon notice.

The tax may be paid in one payment; in which case it must be paid on or before the time fixed for filing return, or where an extension of time for filing the return has been granted on or before the expiration of the period of such extension.

(b) The return will be examined as soon as practicable and if the tax already paid exceeds the installment due, the excess will be credited on subsequent installments; and if the tax paid exceeds the total tax due, the excess will be credited or refunded to the taxpayer (under Sec. 252).

#### Penalties For Negligence—Accuracy Necessary—Other Penalties

If the amount paid is less than the tax due, the taxpayer must, on notice, pay the difference and if the understatement in the return was not due to his fault, there is no penalty; but if it was due to his negligence, but without intent to defraud, 5% of the deficiency will be added to the tax, plus interest at 1% a month on the deficiency of each installment from the time it was due.

If the understatement is false or fraudulent with intent to evade the tax, then, in lieu of the penalty provided by law (RS 3176), for such cases but in addition to other penalties provided by law, 50% of the deficiency will be added as part of the tax.

Except in case of false or fraudulent returns, the tax due must be determined and assessed by the commissioner in 5 years after the return was due or made. No suit to collect tax can be begun after 5 years from date when return was due or made. In case of fraud there is no limit on the time in which action may be taken, or the tax collected.

If the tax is unpaid after the due date and for 10 days after notice and demand by the collector, 5% of the amount due, plus interest at 1% a month will be added. This does not apply to estates of insane, deceased or insolvent persons. The 5% will not be added where any amount is subject to a bona fide claim for abatement, but the interest on such amount will be at  $\frac{1}{2}$  of 1% a month.

#### Instructions Printed on Return Form Sufficient Demand

Instructions printed on the return will be sufficient notice of the date the tax is due, sufficient demand, and the computation sufficient notice of the amount.

If the commissioner finds a taxpayer designs to leave the country suddenly or remove his property, or conceal himself or property, to defeat the tax, he will declare his taxable period ended, give notice, and demand immediate payment.

#### RECEIPTS FOR TAXES

Sec. 251: Collectors will, upon request, give a receipt for taxes, and whenever a debtor pays taxes on account of payments made or to be made to separate creditors the collector will give a separate receipt for the tax paid on account of each creditor. This will be sufficient evidence in favor of the debtor to justify him in withholding the amount from his next payment.

#### FIVE YEAR LIMIT ON REFUND OF TAXES

Sec. 252: If income, war-profits or excess-profits taxes have been overpaid under this act or the Acts of 1909, 1913, 1916, or 1917, then (notwithstanding the provisions of Sec. 3228, RS.) the excess will be credited against any such taxes due under any other return, and any balance of such excess immediately refunded; but no credit or refund will be allowed or made after 5 years from date when the return was due or made, unless a claim has been filed.

#### FAILURE OR REFUSAL TO GIVE INFORMATION PUNISHED

Sec. 253: If any person or concern required to pay or collect any tax, to make return or supply information, fails to do so at the times required, they are liable to a penalty of not over \$1,000. Any person or concern, or officer, or employee who refuses to pay or collect the tax, make return or supply information, or who attempts to defeat the tax, is guilty of a misdemeanor and will be fined not over \$10,000 or imprisoned not over a year, or both, together with costs.

### REPORTS OF DIVIDEND PAYMENTS

**Sec. 254:** Every corporation subject to this tax and every personal service corporation will, when required, make a return of its dividend payments with the names, addresses, amounts paid, and shares owned by each stockholder.

### BROKERS TO REPORT ON CUSTOMERS

**Sec. 255:** All brokers will, when required, make a return giving the names of customers for whom they have transacted any business, with all details as to profits, losses or other information required.

### INFORMATION AT THE SOURCE

**Sec. 256:** All individuals, corporations and partnerships, including lessees or mortgagors, fiduciaries and employers, paying any individual or concern interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, or other fixed or determinable gains, profits and income (other than in dividend and brokers' reports named above), of \$1,000 or more a year, must report the amount with name and address of the recipient; also officers or employees of the U. S. must report such payments by the U. S.; such returns to be under such regulations and to such extent as the commissioner may prescribe.

This report may be required regardless of amount, (1) in case of interest on bonds, mortgages, deeds of trust, or other obligations of corporations, and (2) in case of collections (not payable in the U. S.) of interest on bonds of foreign countries and interest on bonds of and dividends from foreign corporations by individuals or concerns collecting such foreign payments by coupons, checks, or bills of exchange. If necessary the name and address of the recipient of income must be furnished on demand of those paying it. This section applies to 1918 and thereafter, but not to the payment of interest on U. S. obligations.

### NAMES OF TAXPAYERS MADE PUBLIC—MAY BE INSPECTED

**Sec. 257:** Tax returns constitute public records, but may be inspected only on the President's order and under regulations by the Secretary. The proper officers of a state imposing an income tax may, on the Governor's request, have access to them, or to an abstract. Also, bona fide stockholders owning 1% or more of the stock of any corporation will be allowed to examine its income returns as well as of its subsidiaries. Any stockholder allowed to examine any corporation's return, and who makes known unlawfully any particulars set forth therein, is guilty of a misdemeanor and may be fined not more than \$1,000 or imprisoned, or both.

The names and postoffice addresses of all persons making income tax returns will be prepared and made available to public inspection each year, in the office of the collector in each district, and such other places as the Commissioner may determine.

### PUBLICATION OF TAX STATISTICS

**Sec. 258:** Statistics on the operation of the income, war-profits and excess-profits tax laws, including classification of taxpayers, income, deductions, exemptions, credits, etc., will be prepared and published by the Commissioner each year.

### LICENSE TO COLLECT FOREIGN PAYMENTS

**Sec. 259:** Those engaged in collecting foreign payments of interest or dividends by coupons, checks or bills of exchange, must obtain a license from the Commissioner and be subject to his regulations. Penalty for failure to obtain license: Fine not over \$5,000, or imprisonment not over a year, or both.

### CITIZENS OF U. S. POSSESSIONS—PORTO RICO AND PHILIPPINES

**Secs. 260-261:** A citizen of any U. S. possession (but not otherwise a citizen of the U. S.), who does not reside in the U. S., is subject to income tax only as to income from sources in the U. S. In Porto Rico and the Philippines the income tax is paid under Act of 1916 as amended, by every citizen or resident, and every corporation organized or deriving its income from sources therein. Persons not citizens or residents, and corporations organized outside those islands, are taxed as nonresident aliens and as foreign corporations. For the purpose of the credits (under Sec. 216) and dividends (under Sec. 234-a 6) a tax imposed in Porto Rico or the Philippines on a corporation's net income is not deemed a foreign tax.

### WAR PROFITS AND EXCESS-PROFITS TAX

#### RATES FOR 1919

**Sec. 301:** (a) The War-Profits and Excess-Profits tax under the Revenue Act of 1918 are in addition to the other taxes imposed by that Act.

(b) For the taxable year 1919 and each taxable year thereafter the tax on the net income of every corporation (except corporations taxable under subdivision (c) of this section) will be as follows:

#### First Bracket

20% of the net income in excess of the excess-profits credit (determined under Sec. 312) and not in excess of 20% of the invested capital;

The Surtax rates on amounts over \$100,000 are as follows: Over \$100,000 to \$150,000, 5%; over \$150,000 to \$300,000, 5%;

income of individual citizens and residents of the United States. The normal and  
the taxable year 1919. This table is based upon the assumption that the taxpayer's  
dependents, namely, \$2,000. A single person's tax (with an exemption of \$1,000)  
normal rate only, or \$80 more where both fall under the 8% rate. Due allowance  
e, if over \$5,000, is taken as the basis in computing surtaxes.

\$50,000	\$52,000	\$54,000	\$56,000	\$58,000	\$60,000	\$62,000	\$64,000	\$66,000	\$68,000	\$70,000	\$72,000	\$74,000	\$76,000	\$78,000	\$80,000	\$82,000	\$84,000	\$86,000	\$88,000	\$90,000	\$92,000	\$94,000	\$96,000	\$98,000	\$100,000	Total Normal and Surtax		
24%	25%	26%	27%	28%	29%	30%	31%	32%	33%	34%	35%	36%	37%	38%	39%	40%	41%	42%	43%	44%	45%	46%	47%	48%	\$			
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	40		
																										120		
																										170		
																										270		
																										590		
																										830		
																										1,090		
																										1,370		
																										1,670		
																										1,990		
																										2,330		
																										2,690		
																										3,070		
																										3,470		
																										3,890		
																										4,330		
																										4,790		
																										5,270		
																										5,770		
																										6,290		
																										6,630		
																										7,390		
																										7,970		
																										8,570		
480																										9,190		
480	500																									9,630		
480	500	520																								10,490		
480	500	520	540																							11,170		
480	500	520	540	560																						11,870		
480	500	520	540	560	580																					12,590		
480	500	520	540	560	580	600																				13,330		
480	500	520	540	560	580	600	620																			14,080		
480	500	520	540	560	580	600	620	640																		14,870		
480	500	520	540	560	580	600	620	640	660																	15,670		
480	500	520	540	560	580	600	620	640	660	680																16,490		
480	500	520	540	560	580	600	620	640	660	680	700															17,330		
480	500	520	540	560	580	600	620	640	660	680	700	720														18,190		
480	500	520	540	560	580	600	620	640	660	680	700	720	740													19,070		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760												19,870		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780										20,690			
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800									21,530			
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820									22,790		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840								23,770		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840	860							24,770		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840	860	880						25,790		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840	860	880	900						26,530	
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840	860	880	900	920						27,590
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840	860	880	900	920	940			28,970		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840	860	880	900	920	940	960		30,070		
480	500	520	540	560	580	600	620	640	660	680	700	720	740	760	780	800	820	840	860	880	900	920	940	960	980		31,190	

over \$800,000 to \$800,000, 60%; over \$800,000 to \$800,000, 63%; over \$800,000 to \$1,000,000, 64%, and over \$1,000,000, 65%.

## Second Bracket

40% of the net income in excess of 20% of the invested capital.

(c) For the taxable year 1919 and each taxable year thereafter there shall be paid on the net income of every corporation which derives in such year a net income of more than \$10,000 from any government contract or contracts made between April 6, 1917, and November 11, 1918, both dates inclusive, a tax as follows:

1. Such portion of a tax computed at the rates specified in subdivision (a) (which specifies the 1918 rates as shown below), as the part of the net income attributable to such government contract or contracts bears to the entire net income. In computing such tax the excess-profits credit and the war-profits credit applicable to the taxable year shall be used;

2. Such a portion of a tax computed at the rates specified in subdivision (b) as the part of the net income not attributable to such government contract or contracts bears to the entire net income.

For the purpose of determining the part of the net income attributable to such government contract or contracts, the proper apportionment and allocation of the deductions with respect to gross income derived from such government contract or contracts and from other sources respectively, shall be determined under rules and regulations prescribed by the commissioner.

(d) Where the full amount of the excess-profits credit is not allowed under the first bracket of (a) (see rates under 301-a in box below) or (b) because it is in excess of 20% of the invested capital, the part not so allowed will be deducted from the amount in the second bracket.

(e) For the purposes of the Act of March 21, 1918 (providing for operating the railroads) the tax under this title is treated as levied by an Act in amendment of the 1917 Act, Title II.

**Note: The 1918 excess-profits and war-profits rates under Sec. 301-a above, were as follows:**

## First Bracket

30% of the net income in excess of the excess-profits credit (determined under Sec. 312) and not in excess of 20% of the invested capital.

## Second Bracket

65% of the net income in excess of 20% of the invested capital.

## Third Bracket

The sum, if any, by which 80% of the net income in excess of the war-profits credit (under Sec. 311) exceeds the tax computed under the first and second brackets.

If a corporation returns on a fiscal year beginning, for example, Nov. 1, 1918, and ending Oct. 31, 1919, the 1918 rates will apply to 1/6 of the year and 1919 rates to the remaining 5/6 of the year.

## LIMIT OF 20% ON \$20,000 PROFITS

**Sec. 302:** The tax under the 1919 rates (Sec. 301-b) will in no case be more than 20% of the net income over \$3,000, and not over \$20,000, plus 40% of the net income over \$20,000.

The above limitations shall apply to the taxes computed under (a) and (b) of Sec. 301, respectively, when used in (c) of that section. This section cannot be construed to increase the tax under Sec. 301.

(The tax under the 1918 rates (Sec. 301-a) will in no case be more than 30% of the net income over \$3,000, and not over \$20,000, plus 80% of the net income over \$20,000.)

## EXAMPLE NUMBER 1

## Tax Applied to Corporation's 1919 Income (Under Sec. 301-b)

War and excess-profits tax on a corporation:

(a) Capital for taxable year.....	\$1,000,000
(b) Net income for taxable year.....	250,000
(c) Average capital for pre-war period.....	750,000
(d) Net income for pre-war period.....	100,000

Excess-profits credit:

8% of capital for taxable year (a) is.....	\$80,000
Plus specific exemption .....	3,000
	<hr/>
(e) \$88,000	

## EXAMPLE NUMBER 1—Continued

## Tax Under First Bracket

20% of net income in excess of excess-profits credit (e) and not in excess of 20% of invested capital, (20% of \$1,000,000 is \$200,000); \$200,000 minus \$83,000 is \$117,000 at 20%	\$23,400
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## Tax Under Second Bracket

40% of net income in excess of 20% of invested capital; 20% of invested capital is \$200,000; net income in excess of that is \$50,000, 40% of \$50,000 is	\$20,000
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Total war and excess-profits tax	\$43,400
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## EXAMPLE NUMBER 2

## Example of a Small Corporation

Average capital invested for pre-war period	\$ 50,000
Average net income for pre-war period	10,000

Invested capital for 1919	110,000
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Net income for 1919	50,000
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<b>Excess-Profits Credits for 1919:</b>	
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8% of invested capital for the year (8% of \$110,000)	\$ 8,800
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Plus specific exemption of	3,000
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Total credit	\$ 11,800
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## Tax Under First Bracket

20% of the net income (\$50,000) in excess of the excess-profits credit (\$11,800) and not in excess of 20% of the invested capital (\$110,000).	
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Computed: 20% of \$110,000 is \$22,000, less \$11,800 leaves \$10,200 taxable at 20%. The tax is	\$ 2,040
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## Tax Under Second Bracket

40% of the net income (\$50,000) in excess of 20% of the invested capital (\$110,000):	
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Computed: 20% of the invested capital is \$22,000; this subtracted from the net income (\$50,000) leaves \$28,000, which is taxed at 40%	\$11,200
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Total of both brackets	\$13,240
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In addition to the above tax, the income tax would be 10% of the remainder after deducting the excess-profits tax of \$13,200 and the \$2,000 specific exemption, or 10% of \$34,800, which is \$3,480.

## EXAMPLE NUMBER 3

Suppose a corporation with a capital invested for 1919, of \$250,000, earns a net income of \$75,000. Its excess profits credit is 8% of \$250,000 (\$20,000) plus the specific exemption of \$3,000, or a total credit of \$23,000. The tax is assessed on the remainder, \$52,000, as follows:

Brackets	Net Income	Excess Profits Credit	Remainder	1919 Rates	Amount of Tax
Each Bracket			Subject to Tax		
Not over 20% of Invested Capital	\$50,000	\$23,000	\$27,000	20%	\$ 5,400
Over 20% of Invested Capital	25,000		25,000	40%	10,000
Totals	\$75,000	\$23,000	\$52,000		15,400

In addition to the above excess profits tax of \$15,400, the income tax would be computed as follows:

Net Income	\$75,000
Less excess profits tax	\$15,400
Less specific exemption	2,000
Balance subject to income tax at 10%	\$57,600
The total income tax	\$ 5,760
Plus the excess profits tax	15,400
Total tax on above corporation	\$21,600

## IF PART OF INCOME IS FROM SEPARATE BUSINESS

Sec 303: If part of a corporation's net income is from a business, or a branch, in which capital is necessary, and a part (not less than 30% of its net income) is from a separate business, or a distinctly separate branch, which if it were the sole business would bring it in the "personal service corporation" class, the tax on the first part will be separately computed (allowing in such computation only the same proportionate part of the credits authorized in Secs. 311 and 312) and that on the second part will be the same percentage as the tax on the first part is of the first part. The tax on the second part will, however, in no case be less than 20%, unless that on the entire net income, computed without the benefit of this section, would be less than 20% of the entire net income, in which case the tax will be determined on the entire net income, without reference to this section, as other taxes are determined under this title. The total tax computed under this section shall be subject to the limitations in Sec. 302.

## CORPORATIONS EXEMPT FROM THIS TAX

Secs. 304-305: Corporations enumerated in Sec. 231 are, to the extent they are exempt from income tax, also exempt from the war and excess-profits tax.

Any corporation whose net income for the taxable year is less than \$3,000 is exempt from the war and excess-profits tax.

Any corporation engaged in mining gold; the portion of its net income from mining gold is exempt from this tax, and tax on the remainder of its net income will be the proportion of a tax computed without the benefit of this subdivision which such portion of net income bears to the entire net income.

If this tax is computed for less than 12 months prorate the \$3,000 exemption.

#### "PRE-WAR PERIOD" DEFINED

Sec. 310: "Pre-war period" means the calendar years 1911, 1912, and 1913, or, if a corporation was not in existence the whole of that period, then as many years during the whole of which it was in existence.

## THE CREDITS

#### WAR-PROFITS CREDIT

Sec. 311: (a) The war-profits credit consists of:

1. A specific exemption of \$3,000, and
2. An amount equal to the average net income for the pre-war period, plus or minus, as the case may be, 10% of the difference between the average invested capital for the pre-war period and that for the taxable year. If computed for less than 12 months it will be reduced in proportion to the number of months.

(b) If the corporation had no pre-war net income, or if the amount computed under par. 2 above is less than 10% of its invested capital for the taxable year, then the war-profits credit will be:

1. A specific exemption of \$3,000; and
2. An amount equal to 10% of the invested capital for the taxable year.

(c) If the corporation was not in existence the whole of at least one calendar year of the pre-war period, then, except as provided in subdivision (d) below, the war-profits credit will be:

1. A specific exemption of \$3,000; and
2. The same percentage of invested capital for the taxable year as the average percentage of net income to invested capital for the pre-war period of corporations in business of the same general class; but in no case less than 10% of the invested capital for the taxable year. The percentage will be determined by the commissioner from 1917 returns. If the average has not been determined at least 30 days prior to the time the return is due, then 10% will be used; but when determined such average shall be used for the purposes of Sec. 250 in determining the correct tax.

(d) The war-profits credit will be determined as provided in (b) above, instead of as provided in (c) where the corporation was not in existence the whole of at least one calendar year of the pre-war period, (1) if a majority of the stock at any time during the taxable year is owned or controlled directly or indirectly, by a corporation which was in existence the whole of at least one calendar year of the pre-war period, or if (2) 50% or more of its gross income (as computed under Sec. 233 for the income tax) consists of gains, profits or commissions from a government contract or contracts made between April 6, 1917 and November 11, 1918, both inclusive.

(e) A foreign corporation is not allowed the \$3,000 specific exemption.

#### EXCESS-PROFITS CREDIT

Sec. 312: The excess-profits credit consists of an exemption of \$3,000, plus 8% of the invested capital for the taxable year. A foreign corporation is not entitled to the \$3,000 exemption.

#### THE NET INCOME—HOW ASCERTAINED

Sec. 320: A corporation's net income for this tax is ascertained and returned as follows:

1. For 1911 and 1912 as provided in the Revenue Act of 1909, Sec. 38; except that taxes imposed thereby and paid within the year are included;
2. For 1913 as provided in the Revenue Act of 1913, Sec. II; except that taxes under the 1909 Act, Sec. 38, paid in the year, are included, and except that dividends from other corporations taxed under the 1913 Act, are deducted.
3. For the taxable year the same as provided for income tax purposes, under this Act.

To determine the average net earnings for pre-war period divide the number of years in that period during the whole of which the corporation existed into the net income for such years, even though there was no net income for one or more such years.

#### INVESTED CAPITAL—TERMS DEFINED

Sec. 325: (a) "Intangible property" means: Patents, copyrights, secret processes and formulae, good will, trade marks, trade brands, franchises, and other like property.

**"Tangible property"** means: Stocks, bonds, notes and other evidences of debt, bills and accounts receivable, leaseholds, and other property other than intangible property.

**"Borrowed capital"** means: Money or other property borrowed, whether represented by bonds, notes, open accounts or otherwise.

**"Inadmissible assets"** means: Stocks, bonds and other obligations (other than U. S. obligations), the dividends or interest from which is not included in computing net income, but where the income from such assets consists in part of profits from their sale or disposition, or where all or part of the interest from such assets is in effect included in net income because of the limitation on the deduction of interest (under Sec. 234, 2-a), a corresponding part of the capital invested in such assets is not deemed inadmissible assets.

**"Admissible assets"** means: All other assets than inadmissible assets valued according to Secs. 326-a, 330, 331.

(b) Par value of stock or shares in case of those issued at a nominal value or having no par value, is the fair market value as of date of issue.

#### WHAT IS "INVESTED CAPITAL"

**Sec. 326:** (a) **"Invested capital"** for any year means (except as provided in [b] and [c] of this section):

1. Actual cash bona fide paid in for stock or shares:

2. Actual cash value of tangible property, other than cash, paid in for stock or shares, at time of payment, but in no case to exceed the par value of the original stock or shares specifically issued therefor, unless the actual cash value of such tangible property at time paid in is shown to the commissioner's satisfaction to have been clearly and substantially in excess of such par value, in which case the excess will be treated as paid-in surplus; Provided, that the commissioner shall keep a record of all cases in which tangible property is included in invested capital at a value in excess of the stock issued therefor, with name and address of each taxpayer, the business, amount of invested capital and net income shown by the return, value of tangible property at the time paid in, par value of stock issued therefor, and amount included under this paragraph as paid-in surplus. A copy of such record will be furnished Congress when required.

3. Paid-in or earned surplus and undivided profits, not including surplus and undivided profits earned during the year.

4. Intangible property bona fide paid in for stock or shares prior to March 3, 1917, not exceeding its actual cash value at the time paid in, the par value of stock or shares issued therefor, or in the aggregate 25% of the par value of the total stock or shares outstanding March 3, 1917, whichever is lowest.

5. Intangible property bona fide paid in for stock or shares on or after March 3, 1917, not exceeding actual cash value of such property at the time paid in, the par value of stock or shares issued therefor, or in the aggregate 25% of the par value of the total stock or shares outstanding at beginning of taxable year, whichever is lowest; Provided that in no case shall the total amount included under paragraphs (4) and (5) exceed in the aggregate 25% of the par value of the total stock or shares outstanding at the beginning of taxable year; but

(b) **"Invested capital"** does not include borrowed capital.

(c) Deduct from invested capital as above defined a percentage equal to the percentage which the inadmissible assets is of the amount of admissible and inadmissible assets held during the year.

(d) Invested capital for any period is the average, but when making return for a fraction of a year, it will (except for Sec. 311-a2) be the same fractional part of the average invested capital.

To determine pre-war average invested capital divide the number of years in that period during the whole of which the corporation was in existence into the average capital for such years.

#### RULE FOR DETERMINING TAX-RELIEF PROVISION

**Sec. 327:** In the following cases the tax is determined as provided in the next section following (328):

(a) Where the commissioner is unable to determine the invested capital under Sec. 326;

(b) In case of a foreign corporation;

(c) Where a mixed tangible and intangible property was paid in for stock and bonds and the commissioner cannot determine the values of the several classes at time of payment, or to distinguish the classes paid in for stock and bonds, respectively.

(d) Where on application by the corporation the commissioner finds and so declares of record that the tax if determined without benefit of this section would, owing to abnormal conditions affecting the capital or income, work an exceptional hardship evidenced by gross disproportion between the tax computed without benefit of this section and the tax computed by reference to representative corporations specified in

Sec. 328. This subdivision does not apply in any case (1) in which the tax (without benefit of this section) is high merely because the corporation earned in the taxable year a high rate of profits on a normal invested capital, nor (2) in which 50% or more of the gross income for the year (computed under Sec. 233) consists of income derived on a cost-plus basis from government contract made between April 6, 1917, and November 11, 1918, both inclusive.

#### Tax Determined by Comparison with Like Concerns

Sec. 328: In cases specified in Sec. 327, the tax will be the amount which bears the same ratio to the net income of the taxpayer (above the \$3,000 exemption) as the average tax of representative corporations in a similar business bears to their average net income (over the \$3,000) for such year. In case of a foreign corporation the tax will be computed without deducting the \$3,000 either for the taxpayer or the representative corporation. In computing the tax under this section comparison will be made only with representative corporations whose capital can be determined under Sec. 326, and which are similarly circumstanced as to gross income, net income, profits per unit of business and capital, the war-profits or excess-profits, and other facts.

The ratios in such cases will be determined by the commissioner.

Where the tax is to be computed under this section, if the tax as computed without the benefit of this section is less than 50% of the net income, the installments will in the first instance be computed on the basis of such tax; but if it is 50% or more of the net income, the installments will in the first instance be computed on the basis of a tax equal to 50% of the net income. In any case the actual ratio when ascertained will be used. If the correct amount when determined exceeds 50% of the net income, any excess of the correct installments over the amounts actually paid must be paid on demand, together with interest of  $\frac{1}{2}$  of 1% a month on the excess from the time the installment was due.

## REORGANIZATIONS OF CORPORATIONS

#### SPECIAL PROVISIONS

Sec. 330: In case of reorganization, consolidation or change of ownership after Jan. 1, 1911, of a business now carried on by a corporation, the corporation will be deemed to have been in existence prior thereto, and the net income and capital of such predecessor for all or any part of the pre-war period prior to the organization of the corporation now carrying on such business will be deemed to have been the net income and invested capital of such corporation.

If the predecessor was a partnership or individual the net income for the pre-war period is returned (under regulations) in the same manner as for corporations under the income tax, including deduction for salary to partners or the individual.

In case of organization as a corporation, before July 1, 1919, in which capital is a material income-producing factor and which was previously owned by a partnership or individual, the net income of such business from Jan. 1, 1918, to the date of reorganization may at the option of the individual or partnership be taxed as the net income of a corporation is taxed under the income and war- and excess-profits titles; in which case the net income and invested capital of such business is computed as if the corporation had been in existence on and after Jan. 1, 1918, and the undistributed profits of such business will not be subject to the surtax (Sec. 211) but amounts distributed on or after Jan. 1, 1918, from the profits will be taxed to the recipients as dividends, and all provisions of the income and the war- and excess-profits titles relating to corporations will apply, as far as practicable, to such business.

This paragraph will not, however, apply to any business whose net income for the taxable year 1918 was less than 20% of its invested capital for such year. Any taxpayer who takes advantage of this paragraph must pay the tax imposed by Sec. 1000 of this act (Corporation Capital Stock tax) and also, by the first subdivision of Sec. 407 of the 1916 Act, as if the taxpayer had been a corporation on and after Jan. 1, 1918, with a capital stock having no par value.

If any asset of the business in existence both during the taxable and any pre-war year is included in the capital for taxable year and not in that for such pre-war year, or is valued on a different basis, the commissioner will permit readjustments to place the computation of invested capital on the basis used in the taxable year.

#### CHANGE MADE AFTER MARCH 3, 1917

Sec. 331: If change of ownership was made after March 3, 1917, and 50% or more remains in the same persons, or any of them, no asset transferred from the previous owner will be allowed greater value than would have been allowed the previous owner. However, if the previous owner was not a corporation the value of any asset transferred will be taken at its cost (at date acquired by the previous owner) with allowance for depreciation, impairment, betterment or development, but no addition to original cost can be made for expense deducted on or after March 1, 1913, in figuring the net income of the previous owner.

Any tax paid by a partnership or personal service corporation for a period beginning after Jan. 1, 1918, will be refunded immediately.

#### ALL CORPORATIONS MUST FILE RETURN

**Sec. 336:** Every corporation, not exempt, must make a return and pay this tax at the same times and places, in the same manner and subject to the same conditions as provided in the case of returns and payment of income tax by corporations and all the provisions thereunder not inapplicable, apply to the taxes under this title.

#### ON SALES OF MINES, OIL OR GAS WELLS

**Sec. 337:** In case of a bona fide sale of mines, oil or gas wells, or any interest therein, where the principal value of the property has been demonstrated by prospecting or exploration and discovery work done by the taxpayer, the portion of the tax imposed by this title attributable to such sale shall not exceed 20% of the selling price of such property or interest.

### THE ESTATE TAX

#### THE RATES

**Sec. 401:** The Estate taxes under the Revenue Act of 1918, now in force, are the following percentages of the value of the net estate, upon the transfer of the net estate of every decedent dying after the passage of this Act, whether a resident or non-resident:

Not over	\$ 50,000	1%
Over \$ 50,000 and not over	150,000	2%
Over 150,000 and not over	250,000	3%
Over 250,000 and not over	450,000	4%
Over 450,000 and not over	750,000	6%
Over 750,000 and not over	1,000,000	8%
Over 1,000,000 and not over	1,500,000	10%
Over 1,500,000 and not over	2,000,000	12%
Over 2,000,000 and not over	3,000,000	14%
Over 3,000,000 and not over	4,000,000	16%
Over 4,000,000 and not over	5,000,000	18%
Over 5,000,000 and not over	8,000,000	20%
Over 8,000,000 and not over	10,000,000	22%
Over 10,000,000		25%

The estate taxes do not apply to the estates of any decedent who has died or who may die while serving in the military or naval service in the present war or from injuries, or disease contracted, while in such service.

**Illustration of the use of the table below:** The net estate of decedent dying after Feb. 25, 1919, amounts to \$1,325,000. Reference to the table below shows that the last complete "block" less than the amount of the estate is \$1,000,000, and that the tax on a million dollars is \$51,500. Upon the remainder, \$325,000, the tax is computed at the rate in the following line, or at 10%.

Tax on \$1,000,000	\$51,500
Tax on 325,000	32,500

**Total tax.....** \$84,000

On and after Feb. 25, 1919 (Revenue Act of 1918).

Net estate	Not exceeding	Amount of block.	Rate (per cent.)	Tax.	Total.
Exceeding	\$50,000	\$50,000	1	\$500	\$500
\$50,000	150,000	100,000	2	2,000	2,500
150,000	250,000	100,000	3	3,000	5,500
250,000	450,000	200,000	4	8,000	13,500
450,000	750,000	300,000	6	18,000	31,500
750,000	1,000,000	250,000	8	20,000	51,500
1,000,000	1,500,000	500,000	10	50,000	101,500
1,500,000	2,000,000	500,000	12	60,000	161,500
2,000,000	3,000,000	1,000,000	14	140,000	301,500
3,000,000	4,000,000	1,000,000	16	160,000	461,500
4,000,000	5,000,000	1,000,000	18	180,000	641,500
5,000,000	6,000,000	1,000,000	20	200,000	841,500
6,000,000	7,000,000	1,000,000	20	200,000	1,041,500
7,000,000	8,000,000	1,000,000	20	200,000	1,241,500
8,000,000	9,000,000	1,000,000	22	220,000	1,461,500
9,000,000	10,000,000	1,000,000	22	220,000	1,681,500
10,000,000			25		

**HOW TO DETERMINE THE GROSS ESTATE**

**Sec. 402:** Include in gross estate at time of death all property of whatever kind, wherever situated, as follows:

(a) The interest of decedent therein at time of death which after death is subject to the payment of charges against his estate and the administration expense, and which is subject to distribution as part of his estate;

(b) Any interest of the surviving spouse existing at decedent's death as dower, curtesy, or by virtue of a statute creating an estate in lieu thereof;

(c) Any interest therein which he has at any time transferred, or with respect to which he has at any time created a trust, in contemplation of or intended to take effect in possession or enjoyment at or after death (whether made or created before or after the passage of this Act) except in case of bona fide sale for a fair consideration in money or money's worth. Any transfer of a material part of his property in the nature of a final disposition or distribution made within 2 years prior to death without such consideration will, unless shown to the contrary, be deemed made in contemplation of death;

(d) Any interest held jointly or as tenants in the entirety by decedent and any other person or deposited in banks or other institutions in their joint names and payable to either or the survivor, except the part shown to have originally belonged to such other person, and never to decedent;

(e) Any property passing under a general power of appointment exercised by decedent by will, or by deed executed in contemplation of, or intended to take effect in possession or enjoyment at or after death, except that bona fide sold for a fair money consideration or money's worth; and

(f) The amount receivable by the executor as insurance under policies taken out by decedent on his own life; and to the extent of the excess over \$40,000 of the amount receivable by all other beneficiaries as insurance under policies taken out by decedent on his own life.

**TO DETERMINE THE NET ESTATE**

**Sec. 403:** The net estate is determined, in case of a resident decedent by deducting from the gross estate the following:

1. Funeral, and administration expenses, claims against the estate, unpaid mortgages, losses incurred during settlement from fires, storms, shipwreck, or other casualty, or theft, when they are not compensated for in any way, and such amounts reasonably required and actually expended to support during settlement, decedent's dependents as are allowed by the laws of the jurisdiction, whether in or out of the U. S.; but not including income taxes on income received after decedent's death or any estate, succession, legacy, or inheritance taxes.

2. The value at the time of death of any property which can be identified as having been received by decedent from the estate of any person who died within 5 years prior to decedent, or which can be identified as having been acquired by decedent in exchange for property so received, if an estate tax under the 1917 Act or under this Act was collected from such estate, and if such property is included in decedent's gross estate, and—

3. All bequests, legacies, devises or gifts to or for the use of the U. S., any state, territory or political subdivision thereof, or the D. of C., for exclusively public purposes, or to or for the use of any corporation organized exclusively for religious, charitable, scientific, literary or educational purposes, including encouragement of art and prevention of cruelty to children or animals, no part of whose net earnings inure to any private stockholder or individual, or to a trustee or trustees for such organizations. This deduction applies to estates of decedents who have died since Dec. 31, 1917; and—

4. An exemption of \$50,000.

In case of a non-resident decedent, deduct from his gross estate situated in the U. S. at time of death the proportion of the items specified in (1) above which the value of the gross estate in the U. S. bears to the entire gross estate, wherever situated, but in no case can the amount deducted exceed 10% of the part of the gross estate situated in the U. S. at time of death. No deduction is allowed non-resident decedents unless the return includes the value of that part of the gross estate not situated in the U. S.

Stock in a domestic corporation owned and held by non-resident decedent, and money receivable as insurance on his life where the insurer is a domestic corporation, is deemed property in the U. S., and any property decedent has transferred or respecting which he has created a trust is deemed situated in the U. S. if so situated at time of transfer or at death, or creation of the trust or death.

Deduct any property which can be identified at time of non-resident decedent's death as having been received from any person's estate who died within 5 years prior to decedent, or which was acquired by decedent in exchange for property so received, if an estate tax under the 1917 Act or this Act was collected from such estate and if such property is included in that part of decedent's gross estate situated in the U. S. at time of death.

Deduct those amounts specified in paragraph 3 above from such non-resident decedent's estate situated in the U. S. If the tax under existing law has been paid, and it is necessary to allow any deduction specified in par. 3, the excess will be refunded.

#### WHAT IS REQUIRED OF THE EXECUTOR

**Sec. 404:** Within 60 days after qualifying or after coming into possession of any property of decedent, whichever occurs first, the executor will give written notice to the collector. He will also file a return in duplicate, setting forth the gross estate, or, in case of non-resident, of that part situated in the U. S.; the deductions allowed; the value of the net estate; and the tax paid or payable thereon. If any part of this information is not ascertainable at the time it must be furnished when ascertained.

#### Return Required if Gross Estate Exceeds \$50,000

Return must be made wherever the gross estate of a decedent exceeds \$50,000 and wherever any part of a non-resident's gross estate is situated in the U. S. If the executor cannot make a complete report he must describe the part not included, with the names of persons holding a legal or beneficial interest, and on notice from the collector, such person must make return as to such part of the gross estate.

**Sec. 405:** If no administration is granted or no return filed on an estate, or if a return is falsified, the collector or deputy will make a return.

#### TAX DUE ONE YEAR AFTER DEATH

**Sec. 406:** The tax is due one year after decedent's death; but the commissioner may grant an extension if the circumstances warrant, not to exceed 3 years from due date. If the tax is not paid in one year and 180 days after decedent's death, interest at 6% per year from the expiration of one year after death is added to the tax.

#### HOW AND WHEN TO BE PAID—PENALTIES

**Sec. 407:** The executor must pay the tax to the collector. If the amount cannot be determined, a sufficient sum, in the collector's opinion, to discharge the tax will be deemed full payment. If the tax paid exceeds the amount as finally determined, the excess will be refunded, and if the amount of tax finally determined exceeds the amount paid, the executor must pay the difference. If the excess is not paid in 30 days after notice, interest thereafter at 10% will be added from the expiration of such 30 days until paid. The excess will be a lien on the gross estate, except such part as may have been sold to a bona fide purchaser for a fair money price.

**Sec. 408:** If the tax is not paid in 180 days after due date, the collector will, unless reasonable cause for further delay be shown, proceed to collect it under the general law, or begin suit in any U. S. court to sell the property and pay the tax from the proceeds. After deducting the tax, costs and expenses the balance will be deposited on the court's order and paid to those entitled to it.

If any part of the tax is paid by, or collected out of that part of the estate passing to or in possession of, any person other than the executor in his capacity as such, such person will be entitled to reimbursement out of any part of the estate still undistributed or by an equitable contribution by those whose interest would have been reduced if the tax had been paid before distribution, or whose interest is subject to equal or prior liability for taxes, debts or other charges against the estate; it being the law's purpose that, if practicable, and unless otherwise directed by the will, the tax shall be paid out of the estate before distribution.

If any part of the gross estate consists of proceeds of life insurance policies upon decedent's life receivable by a beneficiary other than the executor, the executor will be entitled to recover from such beneficiary such portion of the total tax paid as the proceeds, in excess of \$40,000, of such policies bear to the net estate.

#### UNPAID TAX IS LIEN ON ESTATE

**Sec. 409:** Unless the tax is sooner paid in full it will be a lien on the gross estate for 10 years, except that part used for paying charges and expenses of administration will be divested of lien. If the commissioner is satisfied that all taxes are paid he may release the property from lien.

If a decedent transfers, or creates a trust in contemplation of, or intended to take effect after his death (except a sale for a fair money consideration or money's worth), or if insurance passes under a contract executed by him in favor of a specific beneficiary, and if the tax thereon is not paid when due, the transferee, beneficiary or trustee will be personally liable therefor, and such property be subject to lien for the tax. Any part of it sold to a bona fide purchaser for a fair money consideration will be divested of lien, but the lien will attach to the remainder.

#### FRAUD PUNISHED

**Sec. 410:** Any person who knowingly makes a false statement in any notice or return is liable to a penalty not exceeding \$5,000, or imprisonment not exceeding one year or both. Whoever fails to comply with any duty imposed upon him (by Sec. 404), or having possession or control of any record, file, or paper containing or sup-

posed to contain information as to decedent's estate, or having control of any part of the gross estate, fails to exhibit it on request to any U. S. law officer, collector or his deputies who desires to examine same, is liable to a penalty not exceeding \$500, to be recovered, with costs, in a civil action in the name of the U. S.

#### TAX ON TRANSPORTATION AND OTHER FACILITIES AND INSURANCE

**Sec. 500:** From and after April 1, 1919, the following taxes:

- (a) Transportation of freight by rail or water or in competition therewith, 3%.
- (b) Any package, parcel, or shipment by express, by rail or water or in competition therewith, for each 20 cents or fraction, 1 cent.
- (c) Transportation of persons by rail or water, or by motor power on a regular established line in competition therewith, between points in the U. S. or to Canada or Mexico, where the ticket is sold in the U. S., 8%.
- (d) Commutation or season tickets for trips of less than 30 miles, or where the fare does not exceed 42 cents are not taxed.
- (e) On seats, berths, staterooms, in parlor cars, sleeping cars or on vessels, in connection with tickets on which a tax is imposed by (c) above, 8%.
- (f) On all transportation of oil by pipe line (regardless of ownership), 8%.
- (g) Of the amount paid for leased wire or talking circuit special service, 10%.
- (h) Payments received for service to the U. S. or any state or territory or the District of Columbia are exempt.

#### INSURANCE TAX

**Sec. 503:** Beginning on April 2, 1919, and in lieu of the insurance taxes under Sec. 504 of the 1917 Act, following taxes are imposed on the issuance of insurance policies, including, in case of those issued outside the U. S. (except those under the Stamp Tax section), their delivery in the U. S. by any agent or broker, whether acting for the insurer or insured; the taxes to be paid by the insurer, or by the agent or broker:

**Life Insurance:** 8 cents on each \$100 or fractional part thereof: Provided, that on life insurance policies only not in excess of \$500 on the industrial or weekly or monthly plan, the tax is 40% of the first weekly premium or 20% of the first monthly premium.

Policies on the industrial or weekly or monthly payment plan are taxed at 40% of the first weekly premium or 20% of the first monthly premium as the case may be.

On policies of group life insurance covering not less than 25 lives in the employ of the same person, for the benefit of persons other than the employer the tax is 4 cents on each \$100.

**Marine, Inland, and Fire Insurance:** One cent on each dollar or fractional part thereof of the premium charged under each policy or other instrument.

**Casualty Insurance:** One cent on each dollar or fractional part, of the premium under each policy of insurance or indemnity for loss, damage or liability (except bonds and policies taxable under the Stamp Taxes, Title XI) issued, executed or renewed by any person transacting the business of any branch of insurance (except life insurance and other insurance taxed in the preceding paragraphs). Reinsurance policies exempt.

#### BEVERAGE TAX

**Sec. 600:** On beverages made from cereals or substitutes containing less than  $\frac{1}{2}$  of 1% alcohol, 15%; unfermented grape juice, ginger ale, root beer, sarsaparilla, pop, artificial mineral waters, other carbonated waters or beverages, and other soft drinks, 10%; natural mineral waters or table waters sold at over 10 cents a gallon, 2 cents a gallon.

(Note: The rates on distilled spirits, wines, etc., are omitted for obvious reasons.)

On and after May 1, 1919, of the amount paid at any soda fountain, ice cream parlor, etc., for drinks known as soft drinks, mixed at the place, or for ice cream, ice cream sodas, sundaes, or similar articles of food or drink, when sold in or near such place of business, for each 10 cents or fraction paid, a tax of 1 cent to be paid by the purchaser.

#### TAX ON CIGARS, TOBACCO AND MANUFACTURERS THEREOF

**Sec. 700:** Following rates are in force under the 1918 Act:

<b>Cigars:</b> Weighing not more than 3 lbs. per 1000, tax per 1000.....	\$1.50
<b>Cigars:</b> Weighing more than 3 lbs. per 1000, retailed at not over 5 cents each, per 1000.....	4.00
Retailing at more than 5 cts. and not more than 8 cts. each, per 1000.....	6.00
Retailing at more than 8 cts. and not more than 16 cts. each, per 1000.....	9.00
Retailing at more than 16 cts. and not more than 20 cts. each, per 1000.....	12.00
Retailing at more than 20 cts. each, per 1000.....	15.00
<b>Cigarettes:</b> Weighing not more than 3 lbs. per 1000.....	3.00
Weighing more than 3 lbs. per 1000.....	7.20
<b>Tobacco and snuff, per pound</b> .....	.18
<b>Cigarette Paper.</b> On each pkg. or book of more than 25 but not more than 50.....	1/4 ct.
More than 50, but not more than 100 papers.....	1 ct.
More than 100, for each 50 papers or fraction.....	1/2 ct.
<b>Tubes:</b> for each 50 or fraction .....	1 ct.

## AMUSEMENT AND CLUB DUES TAX

**Sec. 800:** Beginning with April 2, 1919, the following taxes are in effect:

1. Admission, including season ticket or subscription, for each 10 cents or fraction, 1 cent.

2. Persons admitted free (except employees, officers, persons in the military or naval service, in uniform and children under 12) or at reduced rates, where admission is charged, will pay for each 10 cents or fraction, 1 cent.

3. On tickets or cards of admission to theatres, operas and other amusements, sold at news stands, hotels and places other than ticket offices of such theatres, operas, etc., at not to exceed 50 cents over the established price at such ticket offices, plus the tax imposed by par. 1, the tax is 5% of such excess; if sold for more than 50 cents in excess of the established price plus the tax, the tax is 50% of the whole amount of such excess to be paid by seller.

4. On tickets or cards of admission sold or disposed of by the proprietors, managers or employees of any opera house, theatre or other place of amusement in excess of the regular or established price, the tax is 50% of the amount, to be paid by the person selling it.

5. Persons having permanent use of boxes or seats in an opera house or any place of amusement or a lease of such box or seat (in place of the tax in paragraph 1 above) the tax is 10% of the amount for which a similar box or seat is sold for each performance or exhibition at which the box or seat is used or reserved by or for the lessee or holder; the tax to be paid by the lessee or holder.

6. On admission to any public performance for profit at any roof garden, cabaret, or other similar entertainment, to which the charge for admission is wholly or in part included in the price paid for refreshments, service or merchandise, the tax is  $1\frac{1}{2}$  cents for each 10 cents or fraction. The amount paid for admission is deemed to be 20% of the amount paid for refreshment service or merchandise. The tax is paid by the customer.

Admissions for the benefit of religious, educational or charitable institutions, societies or organizations, societies for the prevention of cruelty to children or animals, or organizations conducted for sole purpose of maintaining symphony orchestras and receiving substantial support from voluntary contributions, no profits of which go to members, or exclusively to the benefit of persons in the military or naval forces, or admissions to agricultural fairs, none of the profits of which are distributed to stockholders, are exempt from this tax. "Admission" includes seats, tables, reserved or otherwise, and similar accommodations, and the charges therefor.

The regular price of every ticket must be printed, stamped or written on the ticket, with vendor's name, if sold other than at ticket office. Whoever sells an admission ticket or card without the price and name of vendor in excess of such printed price is guilty of misdemeanor, and on conviction will be liable to a fine of not more than \$100.

## CLUB MEMBERSHIP AND DUES

**Sec. 801:** Beginning April 2, 1919, the tax on club dues or membership fees (where such dues or fees of an active resident annual member are more than \$10 a year) to any social, athletic, or sporting club or organization, is 10%; or as initiation fees to such club or organization, if such fees amount to more than \$10, or if the dues or membership fees (not including initiation fees) of an active resident annual member are over \$10 a year.

This tax does not apply to dues or fees paid to a fraternal society, order or association.

No tax on amounts paid for life membership, but a life member must pay annually at the time for payment of dues by active resident annual members, the same tax as such member.

## EXCISE TAX

**Sec. 900:** Automobile trucks and automobile wagons, (including tires, inner tubes, parts, accessories, etc., sold on or in connection therewith, 3%; other automobiles and motorcycles, including tires, inner tubes, accessories, parts, etc., sold on or in connection therewith, except tractors, 5%; tires, inner tubes, parts or accessories for any of the articles named above, sold to any person other than manufacturer or producer, 5%; pianos, organs (other than pipe organs), piano players, graphophones, phonographs, talking machines, music boxes, and records of all kinds, 5%; tennis rackets, nets, racket covers and presses, skates, snowshoes, skis, toboggans, canoe paddles, gloves, masks, protectors, shoes and uniforms, footballs, helmets, harness and goals, basketball, goals and uniforms, golf bags and clubs, lacrosse, sticks, balls of all kinds, including baseballs, footballs, tennis, golf, lacrosse, billiard and pool balls, fishing rods and reels, billiard and pool tables, chess and checker boards and pieces, dice, games and parts of games (except playing cards and children's toys and games), and other articles known as sporting goods, 10%; chewing gum or substitute, 3%; cameras weighing not over 100 pounds, 10%; photographic films and plates other than moving

picture films, 5%; candy, 5%; firearms, shells and cartridges, except those sold for use of the U. S., any state, territory or possession, any political subdivision, the District of Columbia, or any foreign country while engaged in the present war, 10%; hunting and bowie knives, 10%; dirk knives, daggers, sword canes, stilettos and brass or metallic knuckles, 100%; portable electric fans, 5%; thermos and thermostatic bottles, carafes, jugs, or other thermostatic containers, 5%; cigar or cigarette holders and pipes composed wholly or in part of meerschaum or amber, humidors and smoking stands, 10%; automatic slot device weighing machines, 10%; vending machines, 5%; liveries and livery boots and hats, 10%; hunting and shooting garments and riding habits, 10%; articles made of fur on the hide or pelt of which fur is the component material of chief value, 10%; yachts and motor boats not designed for trade, fishing or national defense, and pleasure boats and pleasure canoes, if sold for more than \$15, 10%; toilet soaps and toilet soap powders, 3%.

#### LEASES OF MOVING PICTURE FILMS

**Sec. 901:** Anyone who manufactures, produces or imports any article enumerated in Sec. 900 above, or leases or licenses for exhibition any positive motion picture film containing a picture ready for projection, and whether through any agreement or understanding or otherwise, sells, leases or licenses such article at less than the fair market price obtainable therefor, either so as to directly or indirectly benefit such person or anyone interested therein, or with intent to cause such benefit, the amount for which such article is sold, leased or licensed shall be taken to be the amount which would have been received if sold, leased or licensed at the fair market price.

#### ART TAX

**Sec. 902:** On sculpture, paintings, statuary, art porcelains and bronzes, sold by any person other than the artist; of the price for which sold, 10%. (Sales of such articles to an educational institution or art museum not taxed.)

#### TAX ON FURNITURE, CLOTHING, ETC.

[Note: It is probable this section will be repealed soon.]

**Sec. 904:** A tax of 10% of the amount paid for the following articles in excess of the price specified, when sold by or for a dealer or his estate for consumption or use: Carpets and rugs, including fibre, except imported and American rugs made principally of wool, on the amount over \$5 per square yard; picture frames, on the amount over \$10 each; trunks, on the amount over \$50 each; valises, traveling bags, suit cases, hat boxes, used by travelers, and fitted toilet cases, on the amount over \$25 each; purses, pocketbooks, shopping and handbags, on amount over \$7.50 each; portable lighting fixtures, including lamps and lamp shades, in excess of \$25.00 each; umbrellas, parasols, and sun shades, on the amount in excess of \$4 each; fans, on the amount in excess of \$1 each; house and smoking coats and jackets, bath or lounging robes, in excess of \$7.50 each; men's waistcoats, sold separately from suits, on the amount in excess of \$5 each; women's and misses' hats, bonnets, and hoods, on the amount in excess of \$15 each; men's and boys' hats, on the amount in excess of \$5 each; men's and boys' caps, on the amount in excess of \$2 each; men's, women's, misses' and boys' boots, shoes, pumps, slippers, (not including shoes or appliances for a crippled or deformed foot or ankle) in excess of \$10 per pair; men's and boys' neckties and neckwear, on the amount in excess of \$2 each; men's and boys' silk stockings or hose, on the amount in excess of \$1 per pair; women's and misses silk stockings or hose, on the amount in excess of \$2 per pair; men's shirts, on the amount in excess of \$3 each; men's, women's, misses', boys' pajamas, night gowns, underwear, in excess of \$5 each; kimonos, petticoats and waists, on the amount in excess of \$15 each.

#### JEWELRY TAX

**Sec. 905:** On all articles commonly known as jewelry, real or imitation; pearls, precious and semi-precious stones and imitations; articles made of or ornamented, mounted or fitted with precious metals or imitation thereof, of ivory (not including surgical instruments); watches, clocks, opera glasses, lorgnettes, marine glasses, field glasses, and binoculars, when sold by a dealer for consumption or use, 5%.

**Sec. 906:** Persons engaged in the business of leasing or licensing for exhibition positive motion picture films containing pictures ready for projection will pay monthly an excise tax equal to 5% of the rentals earned from such during the preceding month. Owners exhibiting such film for profit will pay 5% of the fair rental value.

#### TOILET PREPARATIONS, MEDICINES, ETC.

**Sec. 907:** In effect May 1, 1919, a tax of 1 cent for each 25 cents or fraction thereof of the amount paid for the following articles, when sold by or for a dealer:

Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, tooth and mouth washes, dentifrices, tooth pastes, aromatic cachous, toilet powders, (except soap powders) or any similar article, or preparation by whatsoever name known.

Pills, tablets, powders, tinctures, troches, or lozenges, syrups, medical cordials or bitters, anodynes, tonics, plasters, liniments, salves, ointments, pastes, drops, waters (except those taxed under Sec. 628), essences, spirits, oils and other medicinal preparations, compounds or compositions, (not including serums and anti-toxins) upon the amount paid for any of the above as to which the manufacturer or producer of which claims to have any private formula for making or preparing the same or which are prepared or sold or exposed for sale under letters patent or trade mark or are held out or recommended to the public as proprietary medicines or medicinal proprietary articles or preparations or remedies or specifics for any disease. Vaccines and bacterines and sales of such by a physician in personal attendance exempt.

The tax on the above articles will be collected either by stamp affixed to the article by the seller, cost of which shall be paid by the purchaser, or by payment to the seller by the purchaser, the tax being paid to the U. S. by the seller as provided in Sec. 502.

## SPECIAL TAXES

### CAPITAL STOCK TAX

**Sec. 1000: Every domestic corporation shall pay annually a special excise tax with respect to carrying on or doing business, equivalent to \$1 for each \$1,000 of the fair average value of its capital stock for the preceding year ending June 30. In estimating the value of the capital stock the surplus and undivided profits must be included.**

An exemption of \$5,000 is allowed.

On foreign corporations this tax is \$1 for each \$1,000 average capital employed in the U. S. for preceding year ending June 30.

In case of insurance companies the deposits and reserves required to be maintained are not to be included. This tax applies to mutual insurance companies and on every such domestic company the tax is \$1 for each \$1,000, over the \$5,000 exemption, of its surplus or contingent reserves maintained for the general use of the business. The Capital Stock tax does not apply in any year to any corporation which was not engaged in business (or in case of foreign corporations not doing business in U. S.) during preceding year ending June 30, nor to any corporation enumerated in Sec. 231.

### STAMP TAXES—SCHEDULE A

**Sec. 1100: Bonds of Indebtedness:** On all bonds, debentures, or certificates of indebtedness issued by any person, and all instruments, however termed, issued by any corporation with interest coupons or in registered form, known as corporate securities, on each \$100 of face value or fraction thereof, 5 cents.

**Bonds, Indemnity and Surety:** On all bonds executed for indemnifying any person as surety, and on all bonds for the execution or performance of any contract, obligation, etc., or duties of any office or position, and on all policies of guaranty and fidelity insurance, including those guaranteeing real estate titles and mortgage guarantees, and on all other bonds of any description not otherwise provided for in this schedule, except bonds required in legal proceedings, 50 cents.

Where premium is charged for issuance, execution or renewal or continuance, 1 cent on each \$1 or fraction, of the premium. Reinsurance policies exempt.

**Capital Stock, Issued:** On each original issue, or organization or reorganization, of certificates of stock, or of profits, or of interest in property or accumulations, by any corporation, on each \$100 face value or fraction, 5 cents.

Where a certificate is issued without face value, the tax is 5 cents a share, unless actual value is over \$100, in which case the tax is 5 cents on each \$100 of actual value or fraction thereof. The stamps must be attached to the stock books.

**Capital Stock, Sales or Transfers:** On all sales or agreements to sell, or memoranda of sales or deliveries, or transfers of legal title to shares or certificates of stock, or profits or interest in property or accumulation in any corporation, or to rights to subscribe for or receive shares or certificates, made on or shown by the books, or by assignment in blank or by any delivery, or by any paper or agreement or memo or other evidence of transfer or sale, whether entitling the holder in any manner to the benefit of such stock, interest or rights, or not, on each \$100 of face value, or fraction, 2 cents. Where such shares are without par or face value, 2 cents on the transfer or sale or agreement to sell on each share, unless actual value is in excess of \$100 a share, in which case the tax is 2 cents on each \$100 of actual value or fraction.

It is not intended to tax an agreement evidencing a deposit of certificates as collateral security for money loaned thereon, which are not actually sold, nor on delivery or transfer for such purpose of certificates so deposited.

The tax is not imposed on deliveries or transfers to a broker for sale, nor on deliveries or transfers by a broker to a customer, but such deliveries or transfers must be accompanied by a certificate stating the facts.

On sales where transfer is shown only by the corporation's books, the stamp must be placed on the books; and where change of ownership is by transfer of the certifi-

cate the stamp is placed on the certificate; on an agreement to sell or when transfer is by delivery of certificate assigned in blank, the seller will make and deliver to buyer a memo of sale, to which the stamp is affixed.

**Produce, Sales of, or Exchange:** On each sale, agreement of sale, agreement to sell (not including transferred or scratch sales) any products or merchandise at, or under the rules or usages of any exchange or board of trade, for future delivery, for each \$100 in value, 2 cents, and for each additional \$100 or fractional part, 2 cents.

Cash sales are not taxed.

**Drafts or Checks:** (Payable otherwise than at sight or on demand) on their acceptance or delivery in the U. S., whichever is prior, promissory notes, except bank notes issued for circulation, and for each renewal of the same, for a sum not exceeding \$100, 2 cents; and for each additional \$100 or fractional part, 2 cents.

**Conveyances:** Deed, instrument, or writing whereby lands, tenements, or other realty sold shall be granted, assigned, transferred or otherwise conveyed or vested in any person or persons, when the consideration or value, exclusive of value of any incumbrance thereon at time of sale, exceeds \$100 and does not exceed \$500, 50 cents; and for each additional \$500 or fractional part, 50 cents.

**Entry of goods, wares or merchandise at any custom house, not exceeding \$100 in value, 25 cents; over \$100 and not over \$500, 50 cents; over \$500 in value, \$1.**

**Entry or withdrawal of goods from customs or bonded warehouse, 50 cents.**

**Passage ticket**, one way or round trip, for each passage, sold or issued in the U. S. for passage by vessel to a port or place not in the U. S., Canada or Mexico, if costing not over \$30, \$1; costing more than \$30 and not exceeding \$60, \$3; costing more than \$60, \$5. No tax on such tickets costing \$10 or less.

**Proxy for voting at any corporate election, meeting, etc., 10 cents.**

**Power of attorney: 25 cents.**

**Playing cards: on every pack of not more than 54 cards, 8 cents.**

**Parcel post packages: 1 cent for each 25 cents or fractional part.**

**On each policy of insurance, or certificate, cablegram, letter or other instrument on property in the U. S., issued to, a domestic corporation or partnership or individual resident by any foreign concern not a resident, when such policy is not signed by an officer or agent of the insurer in the U. S., a tax of 3 cents on each dollar, or fractional part thereof, of the premium charged. (Reinsurance policies exempt.)**

#### TAX ON EMPLOYMENT OF CHILD LABOR

**Sec. 1200:** An excise tax of 10% on the net profits of any mine or quarry, which has employed children under 16, and upon any mill, cannery, workshop, factory or manufacturing establishment in which children under 14 are permitted to work; or children between 14 and 16 years have been employed or permitted to work more than 8 hours in a day or more than 6 days in a week, or after 7 p. m. or before 6 a. m.

### THE INCOME TAX—GENERAL PROVISIONS

**Sec. 200: "Personal Service Corporation" Defined:** "Personal service corporation" means a corporation whose income is to be ascribed primarily to the activities of the principal owners or stockholders who are themselves regularly engaged in the active conduct of the affairs of the corporation and in which capital (whether invested or borrowed) is not a material income-producing factor. But it does not include any foreign corporation, nor any corporation 50% or more of whose gross income consists either of (1) gains, profits or income from trading as a principal, or (2) of gains, profits, commissions or other income from a government contract or contracts made between April 6, 1917, and Nov. 11, 1918, both dates, inclusive.

#### DIVIDENDS

**Sec. 201:** (a) "Dividend" used for the income tax (except in Sec. 234-a 10) means (1) any distribution made by a corporation, other than personal service corporation, in cash or other property, or in stock, out of its earnings or profits accumulated since Feb. 28, 1913, or (2) any such distribution made by a personal service corporation out of its earnings or profits accumulated since Feb. 28, 1913, and prior to Jan. 1, 1918.

(b) Any distribution is deemed made from earnings or profits unless all earnings and profits have first been distributed. Any distribution made in 1918 or any year thereafter is deemed made from earnings or profits accumulated since Feb. 28, 1913, or in case of a personal service corporation, from the most recently accumulated earnings or profits; but any earnings or profits accumulated prior to March 1, 1913, may be distributed in stock dividends or otherwise, exempt from tax, after earnings and profits accumulated since Feb. 28, 1913, have been distributed.

(c) A dividend in stock is income to the amount of the earnings or profits distributed. Amounts distributed in liquidation of a corporation are treated as payments in exchange for stock or shares, and any gain or profit realized thereby is taxed to the distributee, as other profits.

(d) If any stock dividend (1) is received by a taxpayer between Jan. 1, and Nov. 1, 1918, both inclusive, or (2) is during that period bona fide authorized or declared, and entered on the books, and is receivable by the taxpayer after Nov. 1, 1918, and before the expiration of 30 days after passage of this Act, such dividend shall, as provided in Sec. 206, be taxed to the recipient at the rates fixed for the years in which the corporation accumulated the profits from which the dividend was paid, but it will be deemed paid from the most recently accumulated profits.

(e) Any distribution made in the first 60 days of any taxable year will be deemed made from profits accumulated during preceding years; but distributions made during the remainder of the year will be deemed made from profits accumulated between the close of the preceding taxable year and date of distribution, and if the books do not show the amount of such profits, those for the accounting period in which the distribution was made will be deemed to have been accumulated ratably during such period.

### BASIS FOR DETERMINING GAIN OR LOSS

Sec. 202: (a) The basis for ascertaining gain derived or loss sustained from the sale or disposition of property is:—

1. In case of property acquired before March 1, 1913, the fair market price or value as of that date; and

2. If acquired on or after that date the cost thereof; or the inventory value, if inventory is made according to the next section (203).

(b) When property is exchanged, the property received in exchange is treated as the equivalent of cash to the amount of its fair market value if any, but when in connection with the reorganization, merger or consolidation, of a corporation a person received in place of stock or securities new stock or securities of no greater aggregate value, no gain or loss is deemed to occur, and the new stock is treated as taking the place of the old. If the new stock received is greater in par or face value, the excess will be treated as gain to the extent that the fair market value of the new stock exceeds the cost of the stock or securities exchanged.

Sec. 203: Whenever, in the Commissioner's opinion, inventories are necessary to clearly determine the taxpayer's income, inventories must be taken.

**Regulation: Loss in Inventory:** Inventory losses are allowable either where goods included in an inventory at the end of the taxable year 1918 have been sold at a loss during the succeeding taxable year, or where such goods remain unsold throughout the taxable year 1919 and at its close have a then market value (not resulting from a temporary fluctuation) materially below the value at which they were inventoried at the end of the taxable year 1918.

### NET LOSSES—THE MOST IMPORTANT RELIEF PROVISION

Sec. 204: (a) "Net Losses" refers only to net losses from either (1) operation of any business regularly carried on, or (2) the bona fide sale of plant, buildings, machinery, equipment or other facilities constructed, installed or acquired on or after April 6, 1917, for the production of articles contributing to the prosecution of the war; and when so resulting means the excess of the deductions allowed (excluding in case of corporations amounts allowed as a deduction in Sec. 234 6-a) over the gross income plus any interest received free from taxation.

(b) If for any taxable year beginning after Oct. 31, 1918, and ending prior to Jan. 1, 1920, it appears on satisfactory evidence, that any taxpayer has sustained a net loss, the amount, under prescribed regulations, will be deducted from the net income for the preceding taxable year; and the taxes for such preceding taxable year shall be redetermined. Any amount found due will be credited or refunded. If the net loss is in excess of the net income for the preceding taxable year, the excess will be allowed as a deduction in computing net income for the succeeding taxable year.

(c) The benefit of this section is allowed to members of a partnership and beneficiaries of an estate or trust.

### PARTS OF INCOME SUBJECT TO RATES FOR DIFFERENT YEARS

Sec. 206: Whenever parts of a taxpayer's net income are subject to rates for different calendar years, the part subject to the rates for the most recent calendar year is placed in the lower brackets, the part subject to rates for the next preceding calendar years is placed in the next higher brackets, applicable to that year, and so until the entire net income is accounted for.

Any deductions, exemptions or credits not plainly chargeable against income taxable at rates for a preceding year will first be applied against the income subject to rates for the most recent calendar year; but any balance will be applied against the income subject to rates of the next preceding year or years until fully allowed.

# LIBERTY BONDS AND VICTORY NOTES

## TAX EXEMPTION FEATURES

Liberty Bonds and Victory Notes are entitled, respectively, to the exemptions from taxation set forth in said acts, from which the statements below are summarized, and to which they are subject.

### I. 4% and 4 1/4% Bonds are exempt from all Federal, State, and local taxation, except (a) Estate or Inheritance taxes, and (b) Federal Income surtaxes and Profits taxes, as follows:

1. First Liberty Loan Converted 4% Bonds of 1932-1947 (First 4s).
2. First Liberty Loan Converted 4 1/4% Bonds of 1932-1947 (First 4 1/4s, issue of May 9, 1918).
3. First Liberty Loan Second Converted 4 1/4% Bonds of 1932-1947 (First 4 1/4s, issue of October 24, 1918).
4. Second Liberty Loan 4% Bonds of 1927-1942 (Second 4s).
5. Second Liberty Loan Converted 4 1/4% Bonds of 1927-1942 (Second 4 1/4s).
6. Third Liberty Loan 4 1/4% Bonds of 1928 (Third 4 1/4s).
7. Fourth Liberty Loan 4 1/4% Bonds of 1933-1938 (Fourth 4 1/4s).
8. Victory Liberty Loan 4 1/4% Convertible Gold Notes of 1922-1923 (4 1/4% Victory Notes).

are exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations.

### II. 4% and 4 1/4% Bonds are entitled to limited exemptions from Federal Income surtaxes and Profits taxes, as follows:

4% and 4 1/4% Liberty Bonds (but not 4 1/4% Victory Notes) are entitled to certain limited exemptions from surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations, in respect to the interest on principal amounts thereof, as follows:

- \$ 5,000 in the aggregate of First 4s, First 4 1/4s (issues of May 9 and October 24, 1918), Second 4s and 4 1/4s, Third 4 1/4s, Fourth 4 1/4s, Treasury Certificates, and War-Savings certificates.
- 30,000 of First 4 1/4s (issue of October 24, 1918, only), until the expiration of two years after the termination of the war.
- 30,000 of Fourth 4 1/4s, until the expiration of two years after the termination of the war.
- 30,000 in the aggregate of First 4s, First 4 1/4s (issues of May 9 and October 24, 1918), Second 4s and 4 1/4s, Third 4 1/4s, and Fourth 4 1/4s, as to the interest received on and after January 1, 1919, until the expiration of five years after the termination of the war.
- 45,000 in the aggregate of First 4s, First 4 1/4s (issue of May 9, 1918, only), Second 4s and 4 1/4s, and Third 4 1/4s, as to the interest received after January 1, 1918, until the expiration of two years after the termination of the war; this exemption conditional on original subscription to, and continued holding at the date of the tax return of, two-thirds as many bonds of the Fourth Liberty Loan.
- 20,000 in the aggregate of First 4s, First 4 1/4 (issues of May 9 and October 24, 1918), Second 4s and 4 1/4s, Third 4 1/4s, and Fourth 4 1/4s, as to the interest received on and after January 1, 1919; this exemption conditional upon original subscription to, and continued holding at the date of the tax return of, one-third as many notes of the Victory Liberty Loan, and extending through the life of such notes of the Victory Liberty Loan.

\$160,000 total possible exemptions from Federal income surtaxes and profits taxes, subject to conditions above summarized.

### III. 3 1/2% Bonds and 3 3/4% Notes are exempt from all Federal, State, and local taxation, except Estate or Inheritance taxes, as follows:

1. First Liberty Loan 3 1/2% Bonds of 1932-1947.
2. Victory Liberty Loan 3 3/4% Convertible Gold Notes of 1922-1923.

are exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

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